FINANCE trust BANK

Putting Women First

Connecting customers to Opportunities through Technology

Annual Report & Financial Statement 2017


Mobile Banking
Agent Banking
Internet Banking

Creating **Convenience** through **Technology**

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ABOUT US

Serving our customers since 1984.

Finance Trust Bank (FTB), a Tier 1 Financial institution was granted an operating license on 11th November 2013 taking over the business of Uganda Finance Trust Limited (MDI). Finance Trust Bank was first registered as an NGO in 1984 as "Uganda Women's Finance and Credit Trust Limited" which later changed its name to "Uganda Women's Finance Trust Limited" in 1997. On 12th October 2005, Uganda Women's Finance Trust Limited was licensed as a Microfinance Deposit taking Institution.

With its headquarters in Katwe, Finance Trust Bank operates a network of 36 branches, including one at Kalangala Islands. 70% of the bank's branches are located in rural areas.

The bank offers a broad range of financial solutions, including loans, deposit accounts, money transfer services, utility bills payments and insurance services to small and medium income people companies, SMEs, institutions and high networth individuals. Finance Trust bank is also active in trade finance and treasury services.

Our Vision

To be the bank of choice.

Our Mission

To effectively deliver innovative financial solutions to our customers and stakeholders especially women.

OUR BUSINESS

..with you from childhood.

OUR
VALUES

Our core values reflect what is truly important to us as an organization:

OUR PRODUCTS
AND SERVICES

DEPOSIT PRODUCTS

Trust Savers Accounts
Trust Savers Individual
Trust Savers Joint
Trust Savers Company
Trust Savers BIDCO
Mama's safe Individual
No Fee Individual Savings
Forex Savings Accounts

Trust Youth Savers Accounts
Trust Junior Savers
Girl's Choice Savings Account
Teen Classic Savings Account
Youth Progress Savings Account

Trust Group Accounts
Trust Group Savers
No Fee Group Savings
Mama's safe Group
SACCO Savings
Investment clubs
VSLAs

Current Accounts
Personal Current Accounts
Business Current account
Forex Current Accounts

Fixed Deposit Accounts
Other Savings Accounts
Staff Savings

CREDIT PRODUCTS

Business Loans
SME/Micro/Corporate Loans
Bank Overdraft
Renewable energy for business
SACCOs and VSLA loans
Insurance Premium Finance Loan
Women in Business Loan
Individual personal loans
School Fees Loan
Renewable Energy Loan
Salary Loans
SmartHome Loan

Agriculture Loans
Agro Production Loans
Agro Processing Loans
Agro Marketing Loans
Agro Investment Loans
Women in Agriculture Loan

Asset Finance Loans
Land / other asset acquisition loan for non business
Motor vehicle loans
Asset Improvement Loan

Trust Mobile Loan / Loan Ku Simu
(Accessed via Trust Mobile)

Off Balance Sheet products
Bank Guarantee
Letters of Credit

Value Added Services

- Money transfer services (through Western Union, MoneyGram, Kendy Pan African, money transfer services, EFT, RTGS)
- Mobile money services (through MTN, Airtel, Msente)
- Utility bills collection (National Water, DSTV, Umeme)
- NSSF collections, URA payments, KCCA collections
- School fees collections
- Micro-insurance (indirectly provided by our insurers)
- Mobile Banking Services

Other Services

We provide our customers with RTGS and EFT, plus many more value added services including: Western Union, MoneyGram, Kendy, Airtel Money, M-Sente, MTN Mobile Money and payments for DSTV, KCCA, URA, eWater Payment, Umeme and NSSF.

Mobile banking service

Our customers can now access their accounts anytime, anywhere, to check their account balances, get mini Statements, and transfer money from one account to another, pay bills like Electricity bills, Water bills, Pay TV. Our customers can also deposit and withdraw from their accounts using Trust Mobile which is integrated with MTN mobile money and Airtel Money.

OUR CUSTOMERS

Finance Trust Bank serves micro, small and medium entrepreneurs, salary earners and youth, who are involved in a wide range of economic activities that include;

Agriculture

This includes agricultural activities along the value chain (i.e. Production, Processing and Marketing), including crop farming, animal rearing, poultry breeding and fish breeding, processing agricultural products and marketing of agricultural produce

Services

Business service related activities e.g. Restaurants and bars, beauty shops, schools, medical centres, pharmacies etc.

Trading

Including groceries, wholesaling and retailing assorted merchandise, motor spares, clothing and textiles, timber, hardware, etc.

Manufacturing and Production

Including carpentry, tailoring and textile houses, bakeries, shoe factories, machinery, foodstuffs, beauty products, etc.

Building and Construction

Including fabrication of building materials, and construction of housing and commercial establishments.

Transport

Transportation activities and purchase of automotive devices - cars, boda bodas, trucks, for personal and commercial use.

Renewable Energy

Clean energy for domestic and commercial purposes e.g. solar, biogas, etc

Bancassurance

As agents of selected insurance companies Finance Trust Bank offers both general and life insurance policies to both customers and non customers.

OWNERSHIP
AND CAPITAL STRUCTURE

Finance Trust Bank has a varied ownership structure comprising of international and local shareholding. The Bank share holders are as follows

20.10%	Uganda Women Trust
19.60%	Oiko Credit Ecumenical Development Cooperative Society U,A
18.30%	RIF North 1
18.30%	Progression Eastern African Micro Finance Equity fund
14.20%	I&P Afrique Enterprenuers
9.50%	Founder Members & others

FINANCIAL
HIGHLIGHTS

Highlights for the year 2017

8%

Total assets grew by 8% from 166.21bn to shs 178.78bn

4%

Net loans and advances increased by 4% from shs 106.2bn to shs 110.42bn

8%

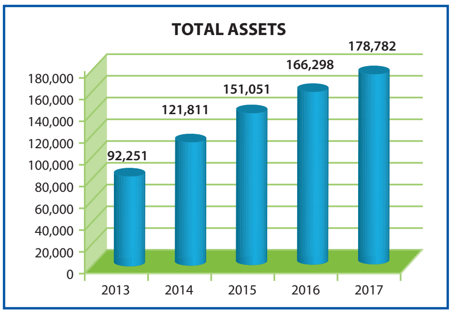
Deposits grew by 8% from shs 95.00bn to shs 102.96bn

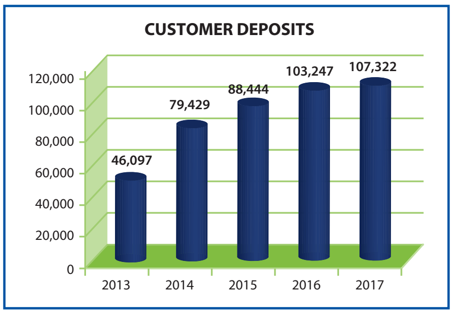
7%

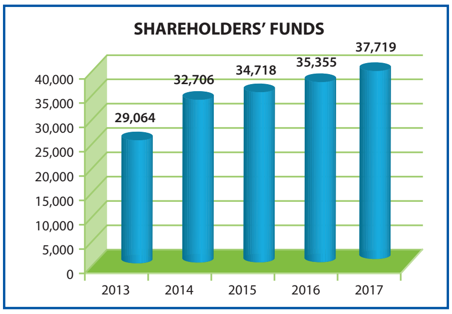
Shareholders' equity went up by 7% from shs 35.35bn to shs 37.72bn

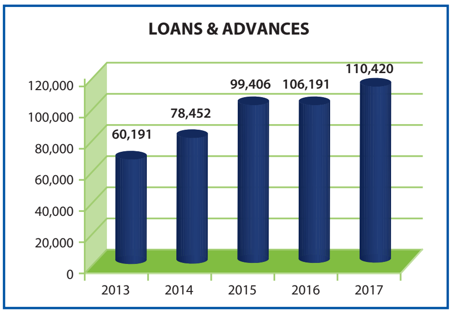
shs2.37bn

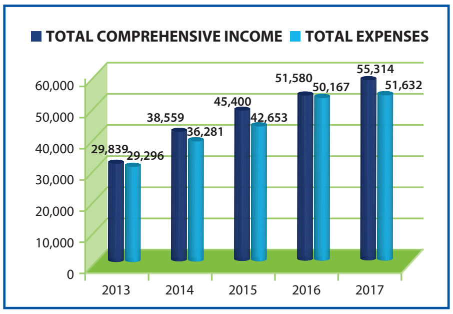
After tax profits more than doubled from shs 1.03bn to Shs 2.37bn

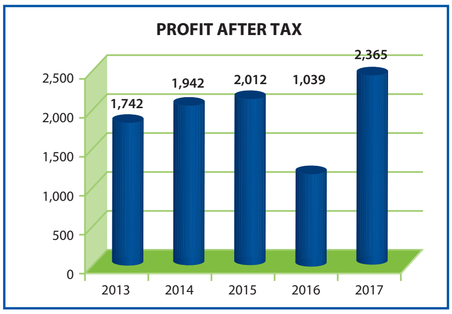












Board Chairperson
Dr. Evelyn Kigozi Kahiigi

CHAIRPERSON'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements for the year ended 31 December 2017. Despite a challenging and subdued business environment, Finance Trust Bank has remained resilient and in line with its strategy, the Bank has been able to return a solid performance that arose from our ongoing efforts to become a more customer-driven, simple and efficient bank which helped us deliver a set of strong financial results.

In 2017, the country experienced significant economic shocks, especially in the financial sector. The Ugandan shilling came under severe stress emanating from the ever growing external trade deficit resulting in a rapid depreciation against major foreign currencies. At the same time, there has been sustained pressure on banks to lower their lending rates through the Central Bank`s Monetary policy despite the rising operational costs.

Additionally, the year has proven to be one of major advances in digital technology and also in the regulatory environment particularly tightening in the area of Information technology security. Cognizant of these major trends, Finance Trust Bank has undertaken strategic initiatives towards innovation for convenient service delivery.

As a key player in the banking sector, Finance Trust Bank's performance was affected by the shocks described above. I am glad to announce that the bank remained strong and continues to progress.

Operating Environment

During the year, annual headline inflation went down to 3.3% from the re-based rate of 5.7%. The decrease was due to stable prices for food and utilities. The Uganda shilling weakened from USD/UGX 3,602 as at 31st December 2016 to USD/UGX 3632 as at end of 31st December 2017. The weakening of the Uganda Shilling was more amplified in October 2017 due to elevated uncertainty surrounding the political environment in neighbouring Kenya.

Yields on government securities continued to decline during the year in line with the protracted easing of monetary policy and lower inflation expectations. Treasury bill rates closed at 8.95% in December 2017 compared to 15.93% for December 2016; this in effect reduced the bank`s return on short term investments.

The Central Bank continued with its cycle of easing monetary policy during the year, cautiously reducing the Benchmark Rate from 12% in December 2016 to 9.5% as at 31st December 2017. This aimed at further boosting growth in private sector credit and to strengthen the economic growth momentum. Interest rates on lending eased slightly in response to the accommodative monetary policy stance from averagely 28% to 20.2% for the year ended December 2017. Growth in private sector credit remains relatively subdued with average annual growth averaging at 5% while asset quality remained a curtailing factor and therefore a risk to credit growth in the long term.

Financial Performance

The audited financial statement is a testament to the bank's commitment to ensuring a descent return on shareholder equity and a commitment to delivering value to all stakeholders.

Finance Trust Bank's focus on enhancing affordability, accessibility and convenience to its services and products has seen its growth momentum maintained for the period ended 31st December 2017. The Bank's net profits more than doubled to ugx2.37bn with a return on equity (ROE) of 6.3% and return on assets (ROA) of 1.33%. Profit before tax grew by 161% percent from ugx1.4bn to ugx3.68bn. Total revenues increased by 7% to ugx55.31 billion and loans increased by 4% to ugx110.42 billion. Total assets grew by 8% to ugx178.78 billion. Shareholders' capital increased by 7% to ugx37.72 billion.

The strong performance by the Bank once again demonstrates our ability to deliver substantial and sustained value for our shareholders and other stakeholders.

Dividend

The Board continues to balance between maximizing shareholder value as well as the need to plough back funds into the company for future business growth. As a demonstration of confidence in the strength of the Bank's balance sheet and sustainability of growth, the Board has recommended a dividend of Ugx 709 million which is 30% of the distributable profits for the year 2017.

Corporate Governance

Strong management and corporate governance continue to be one of the key pillars of Finance Trust Bank. During the year 2017, the bank registered changes at the Board level. After having served on the Board since 2004, the Chairperson Hon. Eng. Irene Muloni, Mrs. Mary Maitum and Mrs.Lydia Ochieng-Obbo retired from the services of the Board. Please join me in thanking these directors for their dedication and sacrifice. We wish them well in their future endeavors. Consequently, new Board Chairperson Dr. Evelyn Kigozi Kahiigi and two other Non-Executive directors, Mr. Robert Kirunda and Mrs. Mary Achan Oduka –Ochan were duly appointed. The bank has greatly benefited and been enriched by the diversity the trio bring on board. We welcome them and look forward to working with them as we support the bank to achieve its desired objectives.

Corporate Social Investment

The Bank continues to impact society beyond the normal banking business. For the second year running, the Bank is conducting countrywide financial literacy program specifically in the regions where the bank is operating. The financial literacy workshops in 2017 attracted over 3,000 participants who consisted of both customers and non-customers. As a bank, we believe in a market that is financially enlightened to ensure sustained growth and thus investing in the financial literacy program.

Outlook for 2018

In 2018, the bank will continue to execute its strategy and adapt to the changes in the economic and industrial environment. This will be driven largely by technology amidst constantly changing customer expectations. The Bank will endeavor to leverage on its strengths, the conducive business environment to champion the socio economic transformation of its customers, to deliver sustainable performance and contribute to the country`s economic development through provision of inclusive customer- focused financial services.

Appreciation

Finally, I wish to express my sincere appreciation to the teams that have enabled us make these great strides over the years. I thank members of the Board of Directors, Management and staff of the Finance Trust Bank for their hard work. In a special way I want to appreciate our customers for their continued trust and support, without them Finance Trust Bank will not exist.

↓ 8.95%

Treasury bill rates closed at 8.95% in December 2017 compared to 15.93% for December 2016

↑ 7%

Total revenues increased by 7% to ugx55.31 billion and loans increased by 4% to ugx110.42 billion.

↑ 8%

Total assets grew by 8% to ugx178.78 billion while Shareholders' capital increased by 7% to ugx37.72 billion.


Debit card
5245
5245
Finance Trust Bank
has a network of
10 ATMs
and is a member
of Interswitch.

"The bank will continue to pursue its strategy of delivering satisfactory financial results. We remain committed to realizing our vision of being the Bank of Choice that serves all but Putting Women First."

Managing Director
Annet Nakawunde Mulindwa

MANAGING DIRECTOR'S STATEMENT

During the year, Finance Trust Bank registered substantial growth progressively, supported by a strong governance and control framework. The year's performance was a reflection of the progress of key strategic activities and projects that the bank continued to undertake to support its growth.

The bank's resilience in the past challenging economic environment asserts the strength of our commitment to growth through leveraging technology and business partnerships, thus the registered performance for the year 2017.

The bank will continue to pursue its strategy to deliver satisfactory financial results. We remain committed to realizing our vision of being the Bank of Choice that serves all but Putting Women First.

We look forward to a more fruitful 2018.

2017 Performance

The Bank expanded on a number of fronts as reflected in the profitability result that more than doubled from levels of Shs 1.03billionn in 2016 to Shs 2.4billion in 2017. Net income recorded growth of 10.04% from shs 42.4 billion in 2016 to 46.7 billion in 2017 while operating expenses registered a 7.0% increase to levels of shs 44.3billion from 41.4 billion in 2016.

The Bank's total assets grew by 8% from 166.3billion in 2016 to 178.8bn in 2017. Net loans and advances grew by 4% from 106.2 billion in 2016 to 110.4billion in 2017. The investments book registered an upward shift from 14.6 billion in 2016 to 19.6billion in 2017.

The number of savers increased from 360,928 in 2016 to 447,936 in 2017. This constitutes 24.1% increase in the number of savers. The number of borrowers also adjusted positively to levels of 26,441 from 24,588 in 2016.

Staff numbers increased slightly from 610 to 656 as the bank needed to build capacity to handle the growing business.

Embracing Technology

Finance Trust Bank has continued to derive value in digitalizing its processes resulting into improved value to its customers.

The Bank has made it more convenient for its customers to transact through the Trust Mobile banking service. Through this service, they are able to deposit and withdraw funds from their accounts, make utility payments, transfer funds and access loans on phone.

The Bank continued its leadership role in technology advancement by enriching its mobile banking application (TrustMobile), enabling customers for the first time in the market to access Loans of up to 1,000,000/= using the mobile phone. This development enables clients access quick short term emergency loans to cater for both domestic and small business needs in a cost effective manner. The Loan on phone is subjected to the Credit Reference Bureau rating before disbursement.

The bank continued to refine its biometric finger print technology to automate customer identification and verification processes that enables it to serve all clients thus furthering financial inclusion.

Putting Women First

Finance Trust Bank prides itself in provision of women and youth entrepreneurship programs through Financial Literacy trainings. As part of our commitment to social responsibility and sustainability, the bank will continue to commit more funds towards this initiative to impact the women on improving their financial skills and confidence in money matters.

The bank partnered with UNCDF to develop and integrate into its mobile banking services; a digital application to offer financial education and reproductive health training to adolescent girls through their phones. The girls have actively participated in the development of this application to ensure that it is customized to their needs and the bank is now ready to launch the application.

The bank has also partnered with insurance providers to offer women and their families affordable health insurance policies through the Mama Safe Medical insurance product.

In addition, the bank offers a women friendly banking environment as they transact at our bank premises. The bank has put in place "Mama corners" at its branches to provide a conducive environment to breast feeding mothers.

Product Offering and Partnerships

In addition to the Mobile banking loans, the bank developed a special hygiene and sanitation loan product code named **WASH**, in partnership with **Water.Org.** This credit product will ensure access to credit specifically for construction and acquisition of water, sanitation and hygiene facilities for both domestic, community and business needs. The bank has seen tremendous demand for this product and continues to see growth for this product.

The Bank continues to leverage partnerships to develop and offer new products and services as well as refine its current product offering in a bid to improve customers' experience and remove the existing challenges with its product offering.

Outlook for 2018

In 2018, the Bank is poised for even better growth and consolidation of achievements of 2017. We have positioned ourselves better through industrial collaborations in the areas of distribution of banking services using technology enablement and sharing of infrastructure for cost effectiveness and value to all stakeholders. This will be manifested through agent banking among other innovations.

The bank having already been granted the Bancassurance license by the Insurance Regulatory Authority, will now embark on offering insurance services to the wider public. This will lead to increased access to insurance services through our wide branch network.

Appreciation

On behalf of the management and staff of Finance Trust Bank, I extend our sincere gratitude to all stakeholders for your role and support throughout the year.

....

MANAGING DIRECTOR


“
Get it done at your convenience with our **Internet Banking.**

EXECUTIVE MANAGEMENT

Annet Nakawunde Mulindwa
MANAGING DIRECTOR

Annette Kiggundu
EXECUTIVE DIRECTOR

Patricia Kemirembe Katende
COMPANY SECRETARY/ HEAD, LEGAL

Percy Paul Lubega
HEAD OF BUSINESS DEVELOPMENT

Racheal Nantongo
HEAD OF BANKING OPERATIONS

Fredrick Muyanja Musoke
HEAD INTERNAL AUDIT

Stella Naigulu
HEAD HUMAN RESOURCE

Ali Lwanga
Ag. HEAD CREDIT

Christine Namata
HEAD FINANCE

Dr. Richard Ssekibuule
HEAD ICT

Sarah Gwokyalya
COMPLIANCE MANAGER

Martin Acegere
Ag. HEAD RISK

BUSINESS & OPERATIONAL REVIEW

Finance Trust Bank operates a network of 36 branches, 70% of which are located in rural areas.

Business Development Department

The Business units within the department are;

1. Research & Product Development
2. Marketing Communication, Branding and PR
3. Business Growth
4. Projects
5. Delivery Channels
6. Customer Service/ Call Centre

The following is being done;

1. The Retail Banking business line consists of Personal Banking (individuals including civil servants) and Business Banking (micro, small & medium sized enterprises).We provide a full range of lending, transactional and savings solutions, supported by strategic investments in technology to enhance our services.

2. The Department is in charge of growth of Assets, Liabilities and customer numbers.

3. The use of technology has been instrumental to the bank's achievements in 2017. The Bank continued to provide its customers with alternative on boarding and transactional channels through the use of Trust Mobile and more specifically through the Loan Ku Simu a mobile phone based loan that is accessible to both savers and loan customers who wish to take a loan between 100,000 to 1,000,000shs. This loan is linked to the Credit Reference Bureau. The department will continue designing and innovating customer specific solutions whilst increasing customer engagements.

Credit Department

As a bank, we have grown our product range to include loans for various needs of the customers. In partnership with "Water.org" a charity organization that bring safe water and sanitation to the world through access to small, affordable loans, Finance Trust Bank developed a Water and Sanitation loan that was designed to enable our communities install sanitary water equipment like water tanks, irrigation systems, water purification systems boreholes, rain garters and harvesters. The loan is also given to customers who wish to build sanitary facilities on domestic premises, commercial premises and suppliers of water and sanitation equipment.

The department's strategy is to increase outreach through extension of this loan product to as many customers as possible.

Operations Department

The Business Operations department is responsible for running the bank's business. The department has the ultimate accountability for profit and loss, and also seeks to maximize return on investment for the shareholders. In 2017, the Bank continued to improve the customer experience through emphasis of the use of biometric finger print service at the teller points to ensure that all customers are enrolled onto the service, to enable the bank control risks associated with identifying the customers.

ICT Department

The ICT department is responsible for provision of Digital Services and Technologies to support and grow the bank business. Finance Trust bank underwent various ICT transformations in 2017.
Most notably, the bank transformed many manual and paper based processes into automated digital services. The bank is continuously innovating in the provision of ICT services through a robust team of highly motivated personnel and technology partners.

Finance Department

The overall mandate of the Finance division is that of ensuring that the entity remains a going concern through guaranteeing value for money within the entire decision making framework of the Bank, working with all the other functions to ensure compliance with regulatory requirements at all times and providing the necessary financial analysis to give meaning to operating results from time to time.

The Finance function is specifically responsible for delivering on the aspects of revenue assurance; cost efficiency; budget development, monitoring & control, product costing & pricing, internal & external financial reporting, project review & evaluation.

The objective of all the above is to ensure the entity achieves an optimal cost-revenue combination so as to guarantee value delivery to the investors.

Treasury Department

In 2017, the Bank registered increased activity in the Government securities which resulted in a growth of income in marketable/ trading securities. The bank offers foreign currency services particularly US Dollars at competitive rates at six of our branches namely - Kampala Road, Kikuubo, Entebbe, Nakivubo, Central and Katwe.

Risk Department

The Risk function provides independent oversight and control on the bank's operational, credit, market, compliance and other risks. The function is charged with the identification, assessment, treatment, monitoring, and reporting of risks with the aim of ensuring that the bank is safeguarded against risks that may have significant impact on bank assets, human resources, capital and reputation of the bank.

This is achieved through continuous improvement in the risk management processes across the bank and promotion of a strong risk culture.

Compliance Department

Compliance department is responsible for ensuring that all the activities and conduct of the bank complies with set internal policies, legal and regulatory requirements. During the year, we ensured that the bank complied with all statutory obligations, like, remitting NSSF payments, meeting tax Obligations to URA and other stake holders.

Our Focus for the coming year is to create a culture of Zero Tolerance to non-compliance at all staffing levels within the bank.

Human Resource Department

In 2017, a total of 130 appointments were made, of which 29.2% were internal candidates. This is evidence of our belief in growing our people and promoting internally.As at 31st December 2017 the bank's average turnover was 4% per quarter, which was within industry standards.

Other departmental activities are stated under sustainability.

Internal Audit Department

The Bank has established an in-house internal audit function. The internal audit is an independent function within the Bank. The Head of Internal Audit reports directly to the Audit Committee functionally and to the Managing Director administratively. Thus the Internal Audit Department is positioned at a level that gives the department the visibility and authority to effectively discharge their responsibility.

The internal audit function adopted the International Standards for the Professional Practice of Internal Auditing issued by Institute of Internal Auditing.

The Audit Committee approves the hiring, removal, evaluation and compensation of the Head of Internal Audit. The scope of authority and responsibility of the internal audit function is defined in the Bank Internal Audit Charter, which is approved by the Audit committee.

The primary role of internal audit function is to assist the Board and senior management to meet the strategic and operational objectives of the Bank, by providing an independent and objective evaluation of the adequacy and effectiveness of risk management, controls and governance processes. The Bank's internal audit approach is aligned with the Bank's Risk Management Framework by focusing on key strategic, financial, operational, compliance and information technology risks. The annual internal audit plan is established in consultation with, but independent of, management. The internal audit plan is reviewed and approved by the Audit Committee. All internal audit findings, recommendations and status of remediation, are circulated to the Audit Committee, the Managing Director, the regulator and relevant senior management every quarter.

The Head of Internal Audit presents the internal audit findings and recommendation to the Board at each quarter.The Audit Committee meets with the Head of Internal Audit on a quarterly basis in a year,without the presence of management. The meetings enable the Internal Auditor to raise issues encountered in their work directly to the Committee.

The professional competence of the internal auditors is maintained or upgraded through training programmes, conferences and seminars that provide updates on auditing techniques, regulations, financial products and services.

The internal auditors have unfettered access to all the Bank's documents, records, properties and personnel, including the Audit Committee.

SUSTAINABILITY REPORT & CSR

"We go beyond the statutory obligations of the bank to impact the communities positively."

SUSTAINABILITY REPORT

The Finance Trust Bank business model ensures that there is value addition for all stakeholders, protects employees, shareholders and the community in which we operate. We protect the environment and enable posterity of the community. We go beyond the statutory obligations of the bank to impact the communities positively while ensuring the bank remains profitable. Our business model is a reflection of the values we uphold as a bank.

Customer Engagement

Finance Trust Bank values its customers greatly and that is why customer feedback is important. Customer feedback enables us tweek our operation structure to ensure a happy customer thus making the bank a customer centric one. In this regard, the bank has a number of tools put in place to enable it gather the thoughts, suggestions of customers but also communicate any new developments in our product and service range.

Call Centre

Finance Trust Bank for the very first time installed a call centre with staff who work a day shift, corresponding with customers through the availed telephone numbers to ensure customer complaints and suggestions are addressed. The call centre is tasked with ensuring the customers get their complaints resolved by liaising with the responsible departments. The call centre works together with a social media team to ensure all complaints that come through the Finance Trust Bank social media channels are resolved.

Social media

In 2017, the bank grew its social media presence by contracting a social media agency. As a result, the following on Facebook, grew from 11,579 to 41,660 in December 2017. Our twitter following grew from 190 to 433 in December 2017. The growth in social media presence has allowed the bank to engage the social media community, promote the bank's products and services, communicate employment opportunities and also gather feedback from customers. The value of a well engaged social media community can be seen the growing feedback being shared through these platforms and the daily inquiries from potential and existing customers on the bank's products and services. The Bank is now ranked 5th among the banks in Uganda with the highest social media presence.

Customer workshops

In 2017, the bank organized for 3 customer workshops within the central region to gather feedback from customers. The customers were forthcoming about pricing of our products and services as well as other operational concerns. The workshops brought together over 300 customers. The Bank shall hold more workshops in other regions where the bank operates.

1. Finance Trust Bank Managing Director addresses customers at a workshop held at Pope Paul memorial Hotel.

2. Customer gives his views about the Bank's services.

3. Top customers from the Bank's Owino Branch receive Certificate of Recognition

4. Head of Operations Ms. Rachael Nantongo addresses customers at a customer workshop held in Kayunga.

5. Top savers of Kayunga branch pose for a photograph at the re-launch of the refurbished branch.

6. Finance Trust Bank Managing Director addresses customers at a workshop held at Mackinnon Suites Hotel in Kampala.

Product offering

Finance Trust Bank's product offering is a broad cocktail of products designed to meet the various needs of its customers. The savings and loan products are further classified into schemes that are even more specific to fit the different segments of customers. This is what constitutes the bank's Product Mix. Finance Trust Bank continued with its pledge to women of having women only products and services. Furthermore, our women loan clientele continue to get the 1% interest decrease as part of affirmative action to ensure more women customers are served. The Bank's product offering is rooted in ensuring greater financial inclusion.

Get a quick loan conveniently using your mobile phone. To access our **Loan ku Simu**, simply dial ***224#** or download the Trust Mobile app and get a quick loan from as low as **Ush 50,000** upto **USh 1,000,000** payable in a period of upto 3 months.

It is instant.

For further enquiries, call **Toll Free Number 0800220500** or visit any of our 36 branches countrywide and join **Trust Mobile** today. *Terms and conditions apply.*

Download the TRUST mobile app on ***GooglePlay*** or simply dial ***224#** and follow the prompts

The Bank also launched a Loan on phone - Loan ku Simu which is accessed by customers who are enrolled on Trust Mobile banking platform. The customers have to fulfill a set of back end algorithms and must have a financial card to be able to access the loan. Customers can access loans upto 1,000,000shs instantly without coming to the bank and have to pay within a period of 1-3 months. This product has enabled our customers meet their emergency needs with dignity and more conveniently.

In partnership with "Water.org" a charity organization that increases access to safe water and sanitation to communities through access to small, affordable loans, Finance Trust Bank developed a Water and Sanitation loan that was designed to enable our communities install sanitary water equipment like water tanks, irrigation systems, water purification systems boreholes, rain garters and harvesters. The loan is also given to customers who wish to build toilets on domestic premises, commercial premises and suppliers of water and sanitation equipment. The Bank's strategy is to increase outreach through extension of this loan product to as many customers as possible.

In partnership with "Water.org" a charity organization that increases access to safe water and sanitation to communities Finance Trust Bank developed a Water and sanitation loan.

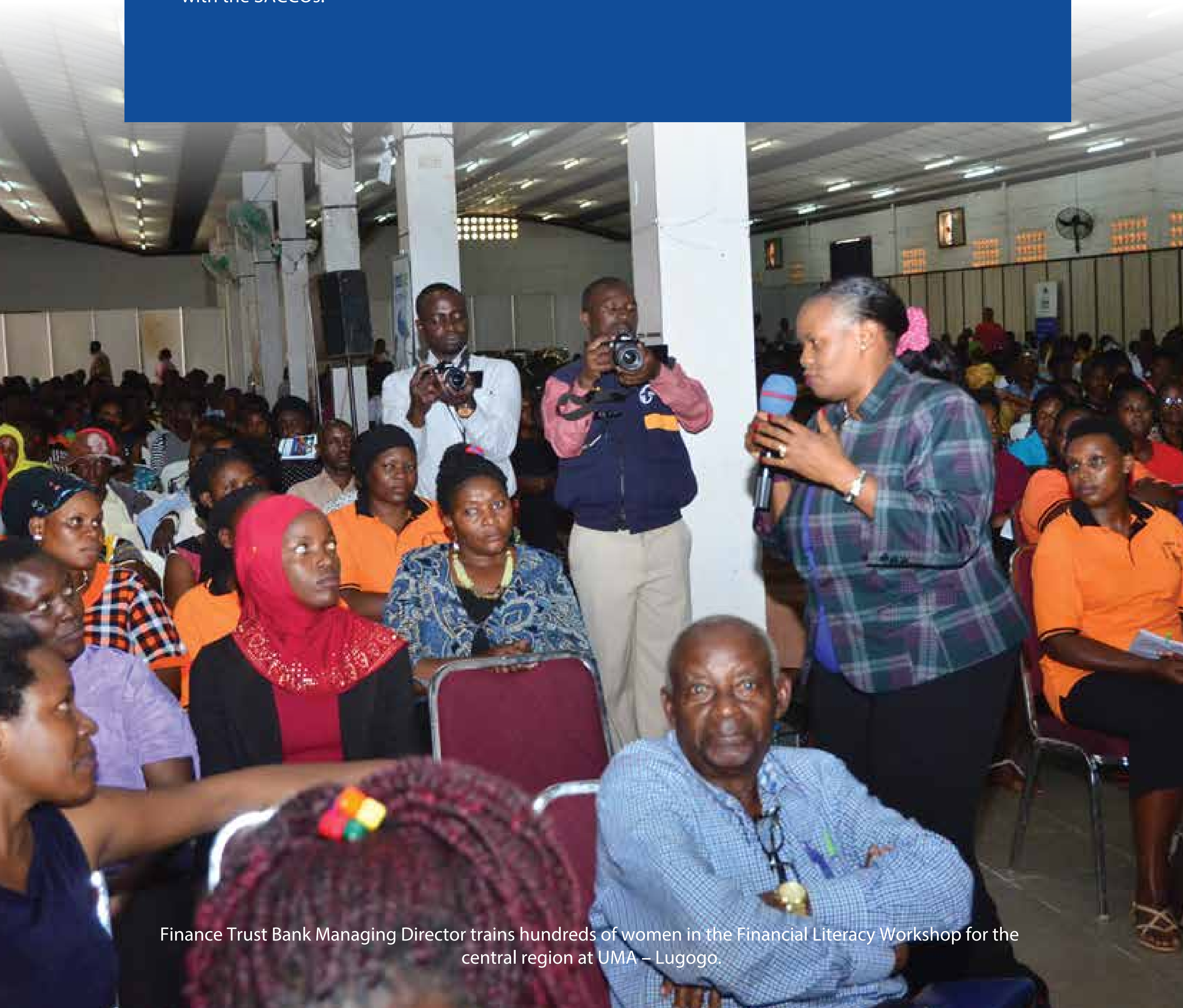
Corporate Social Responsibility

In 2017, Finance Trust Bank continued to pursue its Corporate Social Responsibility theme of " Investing in the future we want" by helping communities resolve social problems through various interventions. The Bank is doing its part in ensuring that the country achieves the sustainable development goals.

The Bank focused on education and health through the following social investments below.

Education

Finance Trust Bank fulfilled its pledge to continue with the financial education for women by organizing workshops across the country. The workshops brought together over 3000 women across the different regions. Todate, the Bank has invested over 150 million shs in the financial literacy workshops country-wide. The Bank continues to use the financial education model in all its mobilization engagements outside these workshops because training people on finances should never stop. The Bank also trained SACCOs leaders in Lwengo district as part of its strategy to strengthen already existing relationships with the SACCOs.



Finance Trust Bank Managing Director trains hundreds of women in the Financial Literacy Workshop for the central region at UMA – Lugogo.

Finance Trust Bank MD Anne Nakawunde Mulindwa hands over a dummy cheque worth 13,500,000shs to the Executive Director Nnabagereka Development Foundation as contribution for the preparations of Ekisaakate Gatonnya

Soft skills Education

Finance Trust Bank would like to be known as the Bank that is with you from childhood. It is the reason we support initiatives that target children at a tender age to groom them into financially and socially sound youth who can later afford to access our range of products and services. Finance Trust Bank partnered with the Nnabagereka Development Foundation (NDF) to sponsor Ekisaakate and also mobilized and paid for some youth to attend the Ekisaakate event.

Helping communities
resolve social problems through various interventions.

Health

Finance Trust Bank lives the value of Team work in several ways. It is in that spirit that the staff of the Bank always answer the call for assistance whenever a staff member is in need of help. The Bank staff, in 2017, assisted 2 staff members to collect money to enable them access medical attention for their children who needed open heart surgery in India.

A Finance Trust Bank staff receives a dummy cheque bearing amount contributed by staff towards her child's medical treatment in India

People Management

Sourcing and Acquisition of Talent

Finance Trust Bank employs technically skilled individuals from the labour market, who are able to drive the Business plan so as to achieve the business goals. A formal online sourcing system ensures to attract young and dynamic persons from all parts of the country.

Performance Management

Performance management is implemented through activity work plans which are cascaded from the institutional scorecard to ensure consistency with and achievement of the key objectives. Monitoring performance is also done through a semi-annual appraisal cycle. Performance Improvement programs are enforced to ensure focus on achievement of the set targets, as well as, instil a performance-focused culture.

Reward and recognition

Best performance is rewarded occasionally in various ways and recognised by Board and management.

Best Regional Manager 2017 poses for photograph with Board Chairperson and Managing Director after receiving a certificate of recognition for his outstanding leadership and performance in the year.

Training and Development

Continuous training programs are conducted to ensure skills enhancement of staff through on job-training, mentoring and external programs.

Staff Welfare

A competitive pay and benefits package ensures a motivated workforce. A medical insurance cover is in force for staff to ensure access to proper medical treatment and rehabilitation in cases of injury. Medical camps have been organzed to educate staff about pertinent occupational health hazards.

The “kitenge day” day demonstrates the unity in diversity of the team.

Employee engagement

Employee satisfaction and engagement surveys are used to inform management decision towards addressing staff needs and grievances.

Sports and team activities

The Bankers sports gala provides an environment for excellence to sports men and women.

Finance Trust Bank Managing Director recognises the outstanding performance of the FTB Table Tennis team who were overall winners of Table tennis in 18th Annual Bankers Sports Gala.

GOVERNANCE AND RISK MANAGEMENT

a. STATEMENT OF
CORPORATE GOVERNANCE

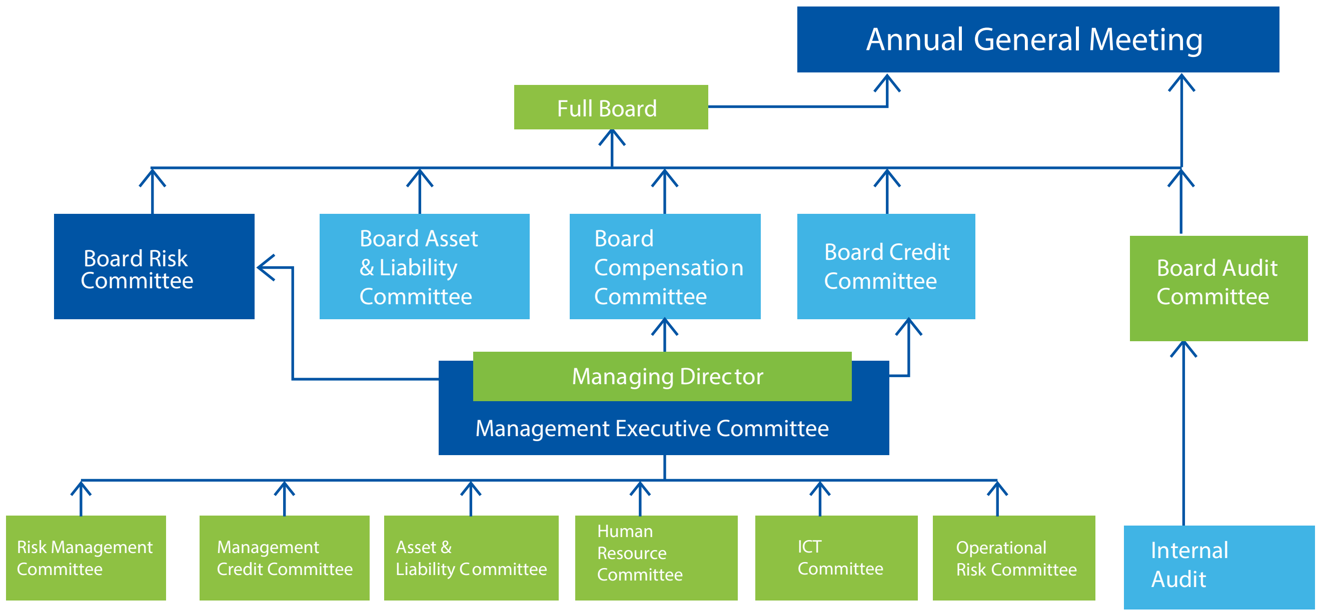
The Board of Directors

The Board of Directors is elected to represent shareholders and its mandate is to establish policies for corporate management and oversight. The Board of Directors is composed of a mix of international and local directors with good expertise and diverse wealth of experience. The Board meets quarterly and the Annual General Meeting is held once a year. The Board has 5 committees. These include; Board Audit Committee, Board Risk Management Committee, Board Asset and Liabilities Committee, Board Compesation Committee and Board Credit Committee.

Governance

Finance Trust Bank's risk governance structure is comprised of the Board, Senior Management and functional risk oversight. Risk at both Board and senior management level is governed through the Board and Management Committees set up at both levels respectively.

THE GOVERNANCE STRUCTURE



The Board Credit Committee (BCC)

The BCC is composed of a chairperson and at least two non-executive members of the Board. The Board Credit Committee is charged with assisting the Board in monitoring the growth and quality of the credit portfolio and to ensure compliance with regulatory requirements. The Board Credit Committee sits quarterly and is charged with the following responsibilities:

1 Review and oversee the overall lending policy of the Bank and be informed of the Institution's credit practices and procedures.

2 Deliberate on and consider loan applications beyond the discretionary limits of the Management Credit Committee;

3 Direct, monitor, review and consider all issues that may materially impact on the present and future quality of the Bank's credit risk management;

4 Review and delegate lending limits to the sanctioning authorities of the Bank;

5 Assist the Board in discharging its responsibility by reviewing the quality of the Bank's loan portfolio, and ensuring adequate provisions for Non Performing Loans in compliance with Prudential Guidelines of BOU on risk classification and provisioning of assets;

6 Conduct loan reviews independent of any persons or committee responsible for sanctioning credit;

7 Ensure that the credit risk strategy and policies are effectively communicated throughout the Bank to enable the Bank to adopt safe and sound banking practices.

8 Monitor management's compliance with all other regulatory requirements including, the BOU Act, Financial Institutions Act, BOU Prudential Regulations, and Circulars issued by the Bank of Uganda of Uganda and any other relevant laws in force, and ensure implementation of any recommendations made by them.

9 Review and Oversee the activities related to Credit Reference Bureau within the bank to ensure compliance with the laws, guidelines and regulations, and ensure continuous improvement of quality of data submitted to the Credit Reference Bureaus.

The Board Assets and Liabilities Committee (BALCO)

This is composed of a Chairperson and at least two members appointed by the Board. The Assets and Liabilities Committee meets quarterly and has the following responsibilities:

1 Ensuring compliance with statutory requirements (cash reserve, liquidity, capital adequacy e.t.c) stipulated in the FI Act 2004, Regulations there under / BOU Guidelines and directives from time to time.

2 Provide and review policy guidelines for Assets-Liability management in line with the Bank's corporate goals.

3 Recommending a mix and maturity profile of incremental assets and liabilities.

4 Advising on the Funding Policy i.e. to decide on the source and mix of liabilities or sale of assets.

5 Monitoring the Bank's policies, procedures and holding portfolio to ensure that goals for diversification, credit, quality, profitability, liquidity, community investment, pledging requirements and regulatory requirements are met.

6 Review, monitor and advise on the performance of the Institutional budget.

The Board Risk Committee (BRC)

The BRC ensures that the institution achieves its goals by ascertaining that it has adequate, effective and efficient systems of internal control and processes that are functioning to protect the institution's assets and minimize bank wide risks. The BRC is responsible for promoting a strong risk culture in the bank.

The BRC is comprised of a chairperson and two non-executive directors appointed by the Board. The Board ensures that every member appointed to the BRC is independent of current management and is free from any relationship that would interfere with his / her exercise of independent judgment. The committee meets on a quarterly basis and is charged with the following responsiblities:

1 Review and recommend to the Board of Directors the risk management policies of the bank.

2 Ensure that the delegation of authority and approval levels is clearly defined with clear Terms of Reference for the different authority levels within the bank.

3 Review and provide guidance on the Business Continuity Management processes and practices of the Bank.

4 Review the Company's operational and strategic business risk exposures in accordance with the risk appetite.

5 Review compliance to financial and related directives issued by various authorities such as the Uganda Revenue Authority, the Bank of Uganda, and compliance with legislation including the MDI Act, Banking Act and the Companies Act.

6 Ensure that the bank information systems are secure and adequate to support the delivery of the bank's strategic objectives.

The Board Audit Committee (BAC)

This is composed of a Chairperson and at least two non-executive Directors appointed by the Annual General Meeting. Ultimately, Finance Trust Bank aims to ensure that at least one of the committee members has a sound financial/accounting background. The Audit committee meets quarterly and is charged with the responsibility of:

1 On instructions from the Board to appoint external auditors, the BAC will recommended to the Board the external auditors to be appointed after considering the scope of work, the audit fees, the profile and independence of the audit firms.

2 Review the scope and the effectiveness of the Internal Audit Department and provide direction on enhancing the utility of the Department through clearly laid down processes, procedures and time frames.

3 Review the internal audit report and audit programs of the bank.

4 In line with the current practice, the BAC handles the recruitment of Head of Internal Audit and refer to board for ratification.

5 BAC evaluates the Head of Internal Audit in consultation with the chairman of the Board, and recommend to the management the remuneration including annual increments and performance bonuses.

6 Commission such ad-hoc internal audit assignments as deemed necessary by BAC, management or the Board.

7 Review the internal controls, operating procedures and systems and management information systems of the bank.

8 Review the financial statements of the Bank and make recommendations.

The Board Compensation Committee (BCOMC)

This is composed of the Chairperson and at least two non-executive members of the Board The Committee meets quarterly and is charged with the responsibility of:

1 Review and make recommendations to the shareholders for remuneration, including incentives, for the Board and Senior Management.

2 Consider and approve the organizational structure of the Bank and ensure that the bank has an up-to-date succession plan for officers holding senior managerial positions.

3 Ensure that the welfare of bank staff is adequate that is, staff remuneration and benefits are within the ability of the Bank to sustain as well as sufficiently oriented towards open market trends.

4 Ensure that management promotes and / or maintains a conducive working environment, good employee relations, throughout the bank; that the culture of merit and professionalism evolves, thrives and percolates throughout all categories of employees.

5 Ensure that the Bank's HR policies, procedures and systems are sound, effective and up to date with current trends and practice.

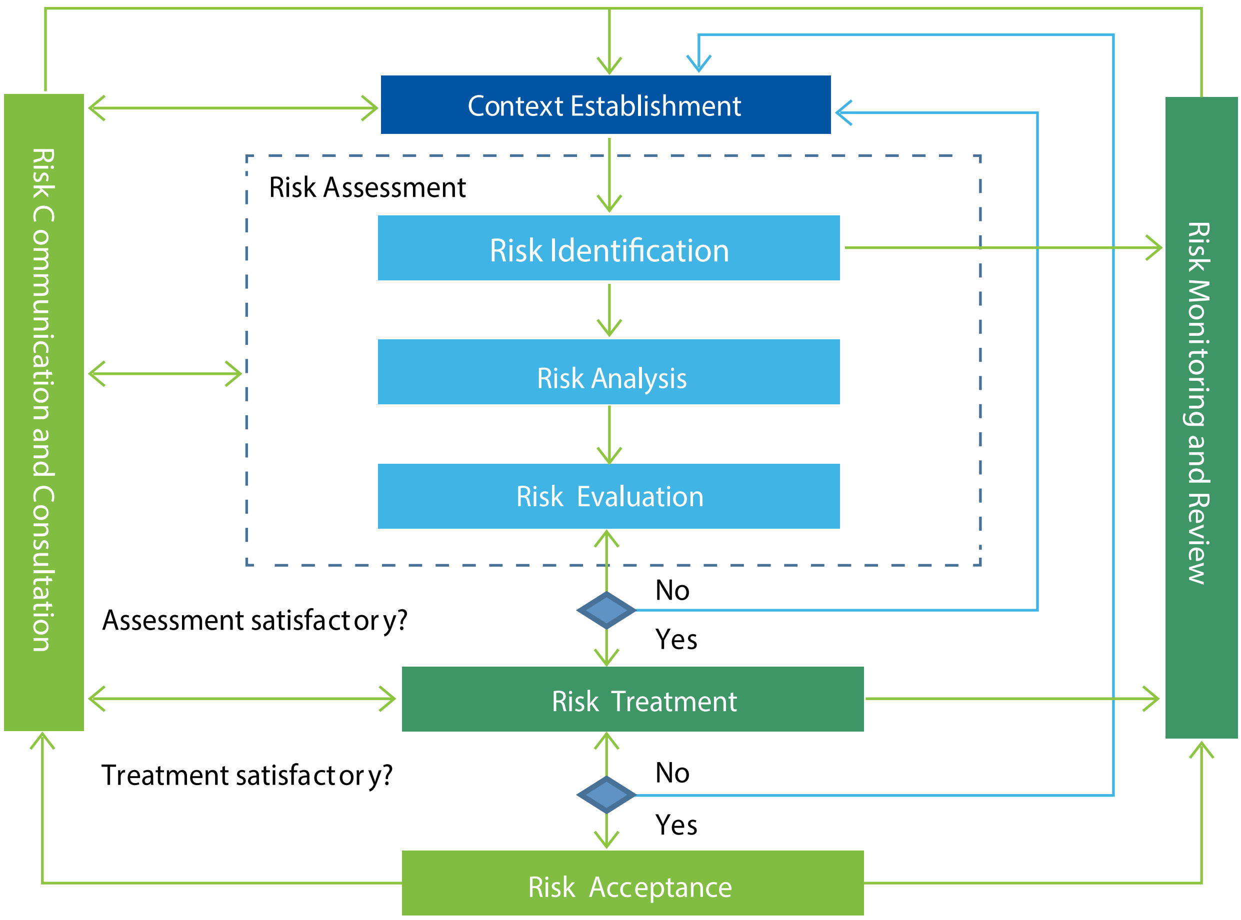
b. RISK MANAGEMENT

Risk management is at the core of all decisions made by the bank. The Bank is faced with internal and external factors that influence the way we do business and make it uncertain whether and/or when the bank will achieve its objectives. The effect of this uncertainty to the achievement of the Bank's objectives is defined as a "risk".

Risk Management process

The Bank manages risk, by identifying, analyzing it and then evaluating whether the risk should be modified by risk treatment in order to satisfy its risk criteria. Risk management in the Bank is applied at all areas and levels at all times as well as to specific functions, projects and branches to ensure that risk is managed effectively, efficiently and coherently across the bank.

The Bank's risk management process comprises of following elements.



Risk identification involves determining what could go **wrong (likelihood)** and what the consequence or **impact (loss or damage)** of it occurring.

The Banks risk management process is initiated through establishment of the context of risk management. By establishing the context, the Bank articulates its objectives, defines the external and internal parameters to be taken into account when managing risk, and sets the scope and risk criteria for the remaining process.

Risk identification involves determining what could go wrong (likelihood) and what the consequence or impact (loss or damage) of it occurring.

Risk Assessment involves analysing the likelihood and consequences of each identified risk and deciding which risk factors will potentially have the greatest effect and should, therefore, receive priority with regard to how they will be managed. The level of risk is analysed by combining estimates of likelihood and consequences, to determine the priority level of the risk.

Risk treatment involves identifying the range of options for treating the risk, evaluating those options based on significance of the risk, whether the cost of the option is commensurate with the benefits of treatment, preparing the risk treatment plans and implementing those plans.

Monitoring and review is an ongoing part of risk management. Few risks remain static. Factors that may affect the likelihood and consequences of an outcome may change, as may the factors that affect the suitability or cost of the various treatment options. Constant monitoring and review ensures that the risk treatment options remain appropriate to the identified risks.

Risk communication to the stakeholders of the Bank, is an ongoing activity that is done through the risk assessment reports that are discussed in the monthly and quarterly management and Board risk committee meetings.

BOARD OF DIRECTORS
PROFILES

Board Chairperson
Dr. Evelyn Kigozi Kahiigi

Dr. Evelyn Kigozi Kahiigi is currently a Lecturer and Head of Department of Information Technology at the School of Computing and Informatics Technology, Makerere University. She started her career at Nile Bank where she worked in the Operations and Computer Departments. Evelyn then moved to the Directorate for ICT Support, Makerere University where she was part of the pioneerin team in setting up ICT infrastructure and systems with specific engagement in developing and implementing the ICT Policy, Strategy and Master Plan.

Evelyn is the current PTA Chairman and Board member of Gayaza High School. She is a youth mentor and an advocate for academic and social excellence. Her interests are inclined towards ICT4D in the field of E-learning, Entrepreneurship and Health Informatics to support, enhance and sustain a better quality of life for the underprivileged and marginalized groups.

Evelyn holds a PhD in Computer and System Sciences from Stockholm University, Sweden.

Managing Director
Annet Nakawunde Mulindwa

The Managing Director of Finance Trust Bank, Mrs. Annet Nakawunde Mulindwa is a banker by profession with over 14 years' practical experience in Banking and Micro nance. Previously she has worked in various capacities, at Finance Trust Bank as Head of Operations, and Operations & Compliance Manager. Prior to Finance Trust Bank, Annet held various key positions at Pride Micro nance and Nile Bank Ltd.

Mrs. Mulindwa holds a Masters in Business Administration majoring in Finance, a postgraduate diploma in Financial management and an honors degree in BA (Arts), She has also attended a number of trainings including Harvard Business School's Strategic Leadership in inclusive Finance, the Advanced Leadership training in Wharton Business School, University of Pennsylvania in USA, Coaching Program for Mission, Leadership and Performance By CREATIVE METIER , Oxford , England, Women in leadership by WOMEN'S WORLD BANKING CENTER FOR MICROFINANCE LEADERSHIP, New York where she got the Financial Woman's Association's Women in Leadership Award for 2008, Balance score card training and Basic banking by Institute of Bankers.

She is passionate about women and youth empowerment, as well as ensuring best practice in banking and micro nance and creating value for customers. She is result oriented and an excellent team player with strong leadership qualities

Executive Director
Annette Kiggundu

Annette Kiggundu is the Ag. Executive Director of Finance Trust Bank. She joined the Bank in May 2016 as Head of Treasury with over 12 years of progressive banking experience in the fields of treasury and financial management, International business, Risk, Compliance and Operations. Previously, she worked with UBA Uganda and Centenary bank.

She is a Chartered accountant with Association of Chartered Certified Accountants (UK),holds a Bachelor`s of Commerce degree (Accounting) and currently pursuing a Master`s degree in Financial Management with Edinburgh Business School, Heriot Watt University. Annette also hold a ACI Dealing certificate and is a member of ACI Uganda Dealers Association.

Director
Tor. G. Gull

Tor G. Gull served as the Managing Director of Oikocredit Interna - tional in the Netherlands from July 2001 to July 2011.
Tor is from Finland where he before joining Oikocredit worked as Senior Vice President and Head of Export and Project Finance for one of the largest commercial Banks in Finland. During that time he was also the Chief Representative for the Bank in South East Asia and China for three years, based in Hong Kong.

From 1978 to 1982 Tor worked with the Nordic Project for Cooperative Development in Tanzania and Kenya developing and supporting credit unions, and small-scale businesses in various parts of the countries.

His experience also includes financial management positions in the Pulp and Paper Industry in Finland.
Since his retirement from Oikocredit Tor has continued his involvement in the financial sector through directorships and memberships in banks, investment funds and institutions active in impact investing, microfi-nance and other development projects.

His professional expertise is complemented by his academic distinc-tions including a Masters in Accounting from the Swedish School of Economics in Helsinki and an MBA in International finance from the Helsinki School of Economics/University of South Carolina

Director
Loïc De Cannière

Loïc De Cannière joined Incofin Investment Management as CEO in 2001.

He successfully restructured and grew the fund management company into one of the largest microfinance and impact investment fund management companies, with a very strong focus on balancing financial and social returns. Today, Incofin IM manages combined total assets of 500M USD. Incofin IM's flagship funds are Rural Impulse Fund I & II, which are focusing on investments in rural microfinance institutions. Incofin IM's investor base comprises large private institutional investors and development finance institutions. Incofin IM has a team of 36 dedicated professionals and has offices in Belgium (Antwerp), Colombia (Bogota), India (Chennai) and Kenya (Nairobi).

Recently, Incofin IM launched "Fairtrade Access Fund", an impact investment fund providing finance to Fairtrade labelled producers organisations worldwide.

He actively promotes the inclusion of social performance parameters into micro finance and impact investments, by participating in the PIIF Steering Committee and by adhering to other initiatives, such as the Social Performance Task Force.

Before he joined Incofin, Loïc De Cannière was responsible for structured finance at the DEME Group, where he structured large port and environmental projects in Tunisia, Ghana, Nigeria, Qatar, India, Bangladesh and Taiwan. Loïc De Cannière studied economics and philosophy at the Universities of Louvain (Belgium) and Munich (Germany).

Director
Albert Richards Otete

Albert Otete is a Certified Public Accountant (CPA – Uganda, Kenya, Rwanda, and Tanzania) with extensive and diverse experience in audit, accounting and business consulting spanning two-and-half decades. He is currently the Chief Executive O cer of J.SR Consulting Limited, a leading indigenous business advisory rm in East Africa. He has previously worked with international accounting rms (PwC and KPMG) rising to position of Senior Manager. He was Deputy Head of Finance (2 years) at Stanbic Bank Uganda and rising to Head of Internal Audit (8 years) at the same bank. He then spent 2 years overseeing Core Banking implementations within Standard Bank covering 8 countries. He is a Member of the Institute of Internal Auditors.

Albert is a Member of the Technical Committee of the Institute of Certi ed Public Accountants of Uganda, a committee charged with promoting compliance with professional auditing and accounting standards. Albert is also a Member of one of the Public Sector Audit Committees of the Ministry of Finance, Planning and Economic Development of Uganda.

Albert is a PhD Candidate in Business Administration with the University Institute of International and European Studies (UNIES, Netherlands) in collaboration with ESAMI Business School.

Director
Lydia Koros

Lydia Koros is a co-founder and Managing Partner at Progression Capital Africa Ltd (PCAL). Prior to setting up PCAL she managed the establishment of a niche MFI focusing on the agriculture value chain in rural Kenya. Prior to this Lydia served as the Managing Director of Faulu Kenya Ltd, a Deposit Taking Microfinance institution, from Aug '05 until Mar '10. Under her leadership, Faulu became the first MFI to be licensed by the Central Bank of Kenya as a DTM.

She was instrumental in spearheading the M-Pesa mobile money transfer system pilot in Faulu Kenya and its utilization by Kenyan MFIs. She has served as the Chairperson of the Association of MFIs in Kenya, chaired the task force set up by AMFI to lobby for the passing of the Micro Finance Act and Regulations for Deposit-Taking MFIs as law. She successfully organized and chaired the Africa and Middle East Microcredit Summit held in Nairobi in April'10. Prior to entering the MFI sector, Lydia worked in Kenya Commercial Bank for over 18yrs in various capacities in the corporate and retail divisions of the Bank, including Head of Corporate Banking.

Director
Jean-Louis de Montesquiou

Jean-Louis'career started at Banque de L'Union Européenne in Paris, then with JP Morgan in New York, Paris and London, where he co-headed the Department of International Loan Syndications. He then ran the corporate nance and banking unit of Union Bank of Switzerland in France. In 1998 he set up the French branch of UBS, which he built up to a size of 400 employees. From 2004 to 2008, as Vice-Chairman of UBS Wealth Management, he ran a program of acquisitions of European Private Banks before being involved as senior adviser in the UBS Philanthropy Department.

He obtained a Master in International and European Law and a Master in History from Paris Sorbonne University in 1975. He also holds several directorships in financial institutions, including Fides Bank Namibia, and is a board member of several charitable institutions, including EORTC and the American Library in Paris. He is also a contributor to a few magazines as well as a town councilor in Mauvezin, France.

Director

Grace Namulinda Aliakai

Grace Aliakai received a Masters degree in Electronics & Electrical Engineering from Loughborough University in 1998. Mrs. Aliakai worked for a few months at Computer Point and then moved on to MTN Uganda in 1999 where she worked for nearly 8 years. At MTN she served in a number of positions including Principal Planning Engineer - Strategic Technologies, where she was in charge of the strategic planning, setup and maintenance of international roaming and interconnection of local and international networks.

Mrs. Aliakai joined Warid Telecom in 2007 where she served as Manager Core Network Strategic Planning before becoming the Head of Carrier Business which position she held to 2010. Mrs. Aliakai is currently working at ATX Technology, an entrepreneurial business with the main focus on Finance.

Mrs. Aliakai is a director at a Ugandan NGO, Mentoring and Empowerment Program for young Women (MEMPROW). She is also a long standing member of the Uganda Women's Trust..

Director

Mary Achan Oduka-Ochan

Mary Achan Oduka-Ochan holds a Master's degree in Development Studies from the University College in Dublin, and a Bachelor's degree in Commerce (Marketing) from Makerere University Kampala. She has served with Irish Aid Program as Senior HIV & AIDS Specialist and as Senior Advisor in the Embassy of Ireland Uganda/Irish Aid. She has served as Country Director of Agency for Personal Services Overseas (APSO) (Irish State Agency), in Uganda and Country Director in Kenya for the same Agency. She served as Director / Consultant Executive for Africa Development Assistance (ADA) (an East African regional NGO) ,as an Assistant Secretary for Women Affairs in Uganda Peoples' Congress Secretariat from and as Marketing Officer for Uganda Airlines Corporation (Tours and Charters). Mary has provided various consultancy services over the years.

Director

Robert Kirunda

Robert Kirunda holds a Masters in Law (LL.M) International Legal Studies Program (ILSP) from the American University Washington College of Law, a Masters in Law (LL.M) in international Trade and Investment Law from University of the Western Cape, South Africa, a Post graduate in Legal Practice(Bar Course), Bachelors of Laws . Robert is the founding partner at Kirunda & Wasike Advocates where he works since December 2012. He lectures at Makerere University Kampala and has worked with JN Kirkland and Associates (Law firm), Makerere University Business School department of law and Shonubi, Musoke & Co. Advocates. He served in a capacity of a Legal Vice presidency, World Bank Group Washington D.C Intern from January to April 2008. Robert is a member of the following professional bodies- Uganda Law Society, East African Law Society, Uganda Christian Lawyers Fraternity and has authored several publications.

Alternate Director

Jeremy Hadjenberg

Jeremy Hajdenberg, born in 1975, an Investment Officer in Investor & Partner for Development (I&P), a social investment company dedicated to developing countries, especially in Africa, with a vocation to invest in micro-finance institutions and in medium size companies in partnership with their promoters and their management. Its available equity is €19 million in 2007

Alternate Director
David Senoga

David Ssenoga has 27 years' experience in banking, Microfinance, auditing and Financial reporting. He holds a Master's of Science Degree in Finance and Accounting, and a Bachelor's Degree in Commerce, of Makerere University- Kampala. He holds a CPA and is an active member of ICPA(U) and is the appointed auditor of the Institute of Certified Public Accountants of Uganda (ICPAU). He also serves on Makerere University Retirement Benefits Scheme Trustee Board as the Chairperson of the Scheme's Audit Committee. Currently he is a practitioner at SDS & Company Certified Public Accountant. Previously he practiced at partner level at Kisaka & Company Certified Public Accountants for 10 years.

Alternate Director
Andrej Machacek

Prior to setting up Progression Capital Africa, Andrej Machacek worked as an Investment Manager at Grassroots Capital, managing the US$120m Global Microfinance Equity Fund since 2008. Andrej was a member of the investment committee and the board of the AfriCap Microfinance Investment Company during AfriCap's transition period between May '10 and Mar '11.

Before this, Andrej spent 2 years at a venture capital incubator, assisting entrepreneurs in refining their business models and in helping them achieve commercial scale. As a Vice President in Deutsche Bank's Global Markets division, Andrej spent 5 years working with the bank's Capital Markets, Leveraged Finance, Financial Sponsors and Mergers & Acquisitions departments, providing the bank's clients with traditional as well as structured equity and debt funding solutions through public as well as private capital markets and advising corporates on how to manage their foreign exchange, interest rate, commodity price and other balance sheet and P&L risk exposures.

Andrej obtained his Bachelor of Arts degree in Economics and Management from Balliol College, Oxford and an MBA from Harvard Business School. He is an Open Society Foundation and Dulverton Trust scholar.

Company Secretary / Head, Legal
Patricia Kemirembe Katende

Patricia Kemirembe Katende has 10 years of professional experience in law and in-house legal counsel services. She is a Charted Corporation Secretary, a member of the Institute of Chartered Secretaries and Administrators (ICSA) UK, a holder of an honors Bachelor's Degree in Law from Makerere University a post graduate diploma in legal practice from the Law Development Centre, Kampala.

Patricia is an enrolled Advocate of the High court and all courts subordinate to it. She holds a valid Law practicing certificate. Patricia is a member of the following professional bodies; The East African Law Society, The Uganda Law Society, The Institute of Corporate Governance of Uganda, ICSA Uganda Chapter and ICSA International. She has also attended various professional trainings in continuous legal profession development and in Corporate Governance.

Patricia has worked with Uganda Microfinance Limited and Centenary Bank at senior levels. She is a good team player and passionate about law and banking.

FINANCIAL STATEMENTS

FINANCIAL
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CORPORATE
INFORMATION

Registered office

FINANCE TRUST BANK LIMITED
Block 6, Plot 121 & 115 Katwe
P.O. Box 6972
Kampala

Company Secretary

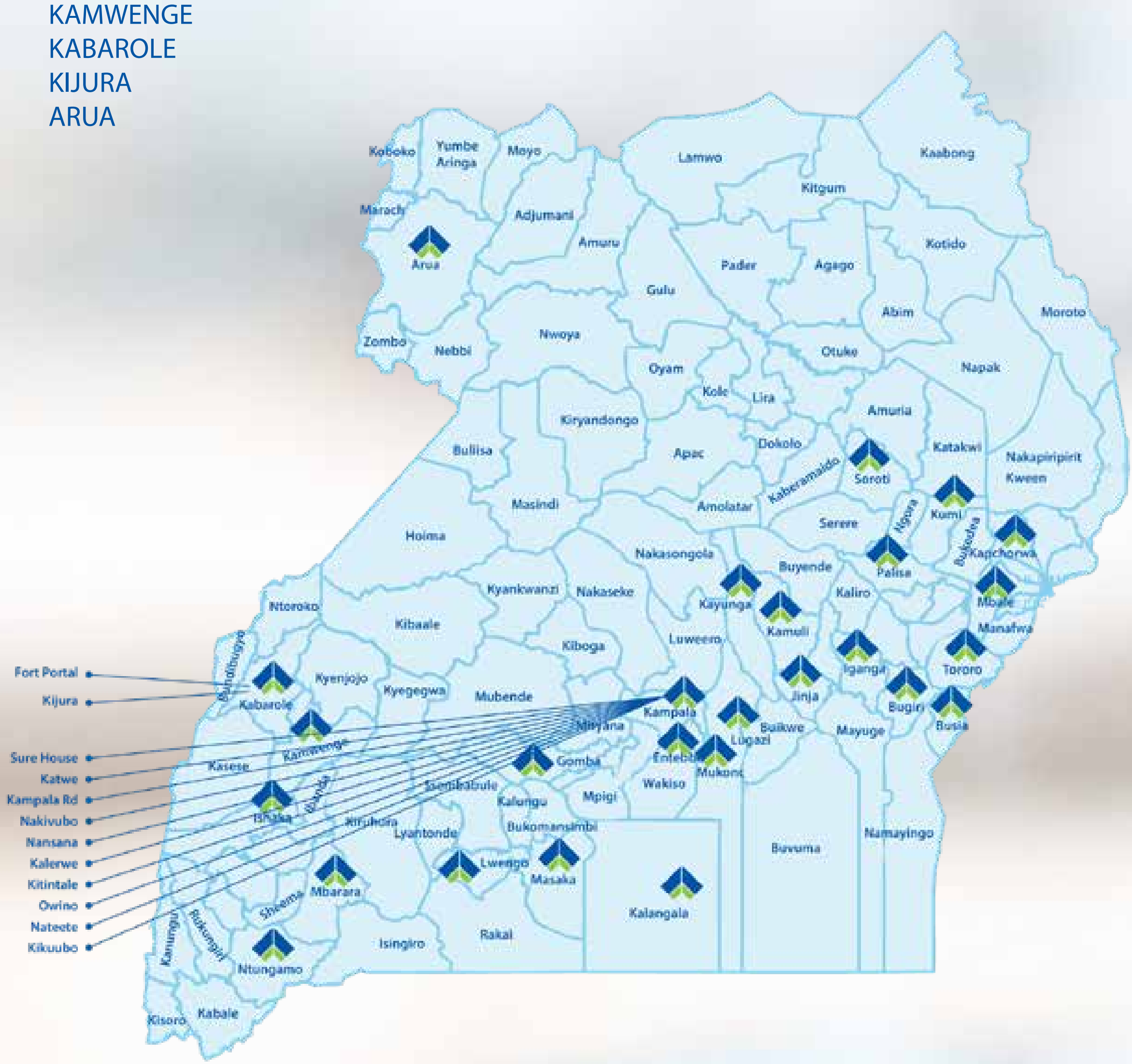
Mrs. Patricia Kemirembe Katende
FINANCE TRUST BANK LIMITED
Block 6, Plot 121 & 115 Katwe
P.O. Box 6972
Kampala

Auditor

PricewaterhouseCoopers
Certified Public Accountants
10th floor, Communications House
1 Colville Street
P.O. Box 882
Kampala

BRANCHES
ACROSS UGANDA

HEAD OFFICE
CENTRAL
ENTEBBE
MUKONO
LUGAZI
KAYUNGA
MASAKA
KATWE
NAKIVUBO
KALERWE
OWINO
KAMPALA ROAD
KITINTALE
KALANGALA
NATEETE
NANSANA
KIKUUBO
LWENGO
GOMBA
JINJA
IGANGA
KAMULI
BUGIRI
BUSIA
TORORO
MBALE
KUMI
SOROTI
PALLISA
KAPCHORWA
MBARARA
ISHAKA
NTUNGAMO
KAMWENGE
KABAROLE
KIJURA
ARUA



DIRECTORS' REPORT

The directors submit their report together with the audited nancial statements for the year ended 31 December 2017, which disclose the state of a airs of FINANCE TRUST BANK LIMITED ("the Bank").

PRINCIPAL ACTIVITIES

The Bank is engaged in the business of banking and the provision of related services as licensed to do so under the Financial Institutions Act.

RESULTS AND DIVIDEND

The profit for the year was 2,374 million (2016: Shs 1,026million) has been to retained earnings. The directors recommend payment of dividends of Shs 709 million for the year ended 31 December 2017 (2016: Nil).

DIRECTORS

The directors who held office during the year and to the date of this report were:

Dr. Evelyn Kigozi Kahiigi	Chairperson	
Mrs Annet Nakawunde Mulindwa	Managing Director	
Mr. Dennis Kakeeto	Executive Director	– Resigned 28 Feb 2018
Mrs. Grace Namulinda Aliakai	Non-Executive Director	
Mr. Kirundi Robert	Non-Executive Director	– Appointed 01 Jun 2017
Mrs. Mary Oduka Achan	Non-Executive Director	– Appointed 01 Jun 2017
Mr. Jean-Louis de Montesquiou	Non-Executive Director	
Mr. Loïc De Cannière	Non-Executive Director	
Mrs. Lydia Koros	Non-Executive Director	
Mr. Jeremy Hadjenberg	Non-Executive Director	– Alternate to Mr. Jean-Louis de Montesquiou
Mr. David Ssenoga	Non-Executive Director	– Alternate to Mr. Tor G. Gull
Mr. Andrej Machacek	Non-Executive Director	– Alternate to Mrs. Lydia Koros
Dr. Mr. Albert Richard Otete	Non-Executive Director	
Hon. Eng. Irene Muloni	Chairperson	– Resigned 21 Jun 2017
Mrs. Lydia Ochieng Obbo	Non-Executive Director	– Resigned 21 Jun 2017
Justice Mary I.D Maitum	Non-Executive Director	– Resigned 21 Jun 2017

AUDITOR

The Bank's auditor, PricewaterhouseCoopers Certified Public Accountants continues in office in accordance with the provisions of Section 167(2) of the Ugandan Companies Act and Section 62 (3) of the Financial Institutions Act.

By order of the Board

Secretary
21 March 2018

STATEMENT
OF DIRECTOR'S RESPONSIBILITIES

The Ugandan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act and the Financial Institutions Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit in accordance with International Financial Reporting Standards and have been prepared in the manner required by the Ugandan Companies Act and the Financial Institutions Act. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement.

Chairperson Board of Directors	Director	Managing Director
21 March 2018		

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF FINANCE TRUST UGANDA LIMITED

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Finance Trust Bank Uganda Limited (''the Bank'') as at 31 December 2017, and of its profit and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been prepared in the manner required by the Ugandan Companies Act.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key audit matters

The key audit matter described below is that which, in our professional judgment, was of most significance in our audit of the financial statements of the Bank for the year ended 31 December 2017. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Key audit matter	How our audit addressed the key audit matter
Assessment of the Bank's Loans and advances for impairment As described in note 2 and 17 to the financial statements, at the end of each reporting period, the Bank assesses whether there are any indicators showing that its loans and advances are impaired. At 31 December 2017, as disclosed in note 17 of the accompanying financial statements, the Bank had recognised an impairment charge of Shs 3,909 million (2016: 2,770 million) on its loans and advances. We focused on the Bank's impairment of its loans and advances for the following reasons: • the accuracy and adequacy of Bank's impairment charge requires management to make judgements to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of the borrowers and their expected future cash flows; and • the Bank's loans and advances represent 62% of the Bank's total assets and therefore impairment of the Bank's loans and advances would likely result in a significant reduction in the Bank's profit for the year.	*Our audit procedures are summarised as follows:* • We evaluated the design and operational effectiveness of controls pertaining to the loan approval and disbursement process focusing on new loan facilities approved and disbursed during the year. • We also tested the design and operational effectiveness of computer controls specific to the impairment of the Bank's loans and advances focusing on controls over the collection of impairment data and the accuracy of impairment provision calculations. • For a sample of loans outstanding at 31 December 2017, we checked the accuracy of the computation of the impairment provision. We also checked whether or not the aging of the loan balance, as disclosed on the loan arrears report, was properly derived. Specifically, we checked whether the Bank's loans at 31 December 2017 were properly classified as either normal, watch, substandard, doubtful or loss as defined in the Financial Institutions (Credit Classification and Provisioning) Regulations, 2005. • Where impairment was individually assessed, we tested a sample of loans and advances to ascertain whether the loss event (that is the point at which impairment is recognised) had been identified in a timely manner. For these loans, we also examined the forecast of future cash flows prepared by management to support the calculation of the impairment, assessing the assumptions and comparing estimates to external evidence where available. • We extended our sample to include loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether management's decision was appropriate.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act and the Financial Institutions Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

• Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The Ugandan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books; and

iii) the Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.

The engagement partner on the audit resulting in this independent auditor's report is CPA Cedric Mpobusingye – P0213.

PricewaterhouseCoopers

Certified Public Accountants
Kampala
26 April 2018

STATEMENT OF
COMPREHENSIVE INCOME

	Notes	2017 Shs 000	2016 Shs 000
Interest income	5	**35,394,513**	33,128,951
Interest expense	6	**(8,626,940)**	(9,153,235)
Net interest income		**26,767,573**	23,975,716
Impairment losses on loans and advances	17 (b)	**(3,909,047)**	(2,769,781)
Net interest income after loan impairment charges		**22,858,526**	21,205,935
Fees and commission income	7	**17,931,425**	16,938,864
Net foreign exchange gains	8	**125,120**	143,427
Other operating income	9	**1,863,377**	1,368,654
Operating expenses	10	**(39,096,170)**	(38,243,992)
Profit before income tax		**3,682,278**	1,412,888
Income tax expense	12	**(1,307,810)**	(385,999)
Profit for the year		**2,374,468**	1,026,889
Other comprehensive income	33	**(9,765)**	11,982
Total comprehensive income for the year		**2,364,703**	1,038,871
Earnings per share - basic and diluted (Shs per share)	30	**85**	37

STATEMENT OF
FINANCIAL POSITION

	Notes	2017 Shs 000	2016 Shs 000
ASSETS			
Cash and balances with Bank of Uganda	13	**22,283,658**	18,516,850
Deposits and placements with other Banks	14	**9,726,755**	12,983,430
Government securities	15	**16,043,949**	7,455,065
Loans and advances to customers	17	**110,419,750**	106,190,959
Other assets	16	**6,778,164**	6,298,827
Current income tax recoverable	12	**121,114**	253,999
Deferred income tax asset	25	**-**	173,988
Property and equipment	18	**9,144,514**	9,364,489
Operating lease prepayments	19	**1,155,119**	1,178,449
Intangible assets	20	**3,109,304**	3,795,606
Total assets		**178,782,327**	166,211,662
EQUITY AND LIABILITIES			
Liabilities			
Customer deposits	21	**102,956,503**	95,001,566
Deposits and balances due to other banking institutions	22	**4,365,100**	8,245,199
Borrowings	23	**23,316,087**	19,845,915
Finance leases	26	**67,311**	110,283
Deferred tax Liability		**643,275**	-
Other liabilities	24	**9,714,617**	7,653,968
Total liabilities		**141,062,893**	130,856,931
Equity			
Share capital	27	**27,785,402**	27,785,402
Regulatory credit risk reserve	17 (c)	**1,097,788**	1,228,953
Retained earnings		**8,124,360**	6,328,138
Available for sale revaluation reserve		**2,217**	11,982
Dividend Payable		**256**	256
Proposed dividends		**709,411**	-
Total equity		**37,719,434**	35,354,731
Total equity and liabilities		**178,782,327**	166,211,662

The financial statements on pages 57 to 97 were approved for issue by the Board of Directors on 21 March 2018 and signed on its behalf by:

Chairperson Board of Directors 21 March 2018	Director	Managing Director	Secretary

STATEMENT OF
CHANGES IN EQUITY

	Notes	Share capital Shs 000	Regulatory reserve Shs 000	Retained earnings Shs 000	Proposed dividends Shs 000	Available for sale fair value reserve Shs 000	Total Shs 000
Year ended 31 December 2016							
At 1 January 2016		**27,785,402**	**1,273,360**	**5,256,842**	**402,426**	-	**34,718,030**
Comprehensive income:							
Profit for the year		-	-	1,026,889	-	-	1,038,871
Other comprehensive income		-	-	-	-	11,982	11,982
Total comprehensive income		-	-	1,026,889	-	11,982	1,038,871
Transactions with owners:							
Transfer to regulatory reserve		-	(44,407)	44,407	-	-	-
Rights issue		-	-	-	-	-	-
Dividends Paid	34	-	-		(402,170)	-	(402,170)
At 31 December 2016	**27**	**27,785,402**	**1,228,953**	**6,328,138**	**256**	**11,982**	**35,354,731**
Year ended 31 December 2017							
At 1 January 2017	**27**	**27,785,402**	**1,228,953**	**6,328,138**	**256**	**11,982**	**35,354,731**
Comprehensive income:							
Profit for the year		-	-	2,374,468	-	-	2,374,468
Other comprehensive income		-	-	-	-	(9,765)	(9,765)
Total comprehensive income		-	-	2,374,468	-	2,217	2,364,703
Transactions with owners:							
Transfer from regulatory reserve		-	(131,165)	131,165	-	-	-
Dividends paid	34	-	-	(709,411)	709,411	-	
At 31 December 2017	**27**	**27,785,402**	**1,097,788**	**8,124,360**	**709,667**	**2,217**	**37,719,434**

STATEMENT OF
CASHFLOWS

	Notes	2017 Shs 000	2016 Shs 000
Cash flows from operating activities			
Interest receipts		**35,271,309**	32,773,444
Interest payments		**(8,626,940)**	(9,109,012)
Net fee and commission receipts		**17,931,425**	16,858,401
Other income received		**746,292**	572,749
Recoveries from loans previously written off	9	**978,965**	619,357
Payments to employees and suppliers		**(39,096,170)**	(34,415,660)
Income tax paid	12	**(357,662)**	(239,396)
Cash flows from operating activities before changes in operating assets and liabilities		**6,847,219**	7,059,883
Changes in operating assets and liabilities:			
- loans and advances	17	**(4,276,688)**	(8,979,584)
- other assets	16	**(456,008)**	(2,235,413)
- customer deposits	21	**7,954,937**	16,582,362
- deposits due to other banks	22	**(3,880,099)**	(1,779,804)
- other liabilities	24	**1,826,937**	1,892,592
- government securities	15	**7,407,168**	(6,510,327)
Net cash generated from operating activities		**15,423,466**	6,029,709
Cash flows from investing activities			
Decrease in placements with other banks	14	**3,554,856**	209,920
Purchase of property and equipment	18	**(2,207,287)**	(2,153,796)
Purchase of intangible assets	20	**(51,555)**	(1,887,081)
Proceeds from sale of property and equipment		**91,339**	27,094
Net cash utilized in investing activities		**1,387,353**	(3,803,863)
Cash flows from financing activities			
Proceeds/(Repayment) of borrowings	23	**3,427,201**	(1,780,874)
Change in designated funds	24	**70,343**	(578,775)
Change in capital grants	25	**(199,424)**	279,026
Dividends paid to shareholders		**-**	(402,170)
Net cash utilized from financing activities		**3,298,120**	(2,482,793)
Net increase/ (decrease) in cash and cash equivalents		**20,108,937**	(256,947)
Cash and cash equivalents at start of year	29	**24,370,218**	24,627,165
Cash and cash equivalents at end of year		**44,479,157**	24,370,218

NOTES

1. General information

The Bank is incorporated in Uganda under the Ugandan Companies Act as a limited liability company, and is domiciled in Uganda.

The address of its registered office is:

Block 6, Plot 121 & 115 Katwe
P.O. Box 6972
Kampala

For the Ugandan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account is represented by the statement of comprehensive income in these financial statements.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

The financial statements are presented in Uganda Shillings, rounded to the nearest thousand (Shs 000).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Bank:

The following standards and amendments have been applied by the Bank for the first time for the financial year beginning 1 January 2017:

Amendments to IAS 7 – Cash flow statements introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt.

Amendments to IAS 12 – Income taxes clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.

Amendments to IFRS 12 - Disclosure of interests in other entities clarify that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised inancial information. Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests.

As these amendments merely clarify the existing requirements, they do not affect the Company's accounting policies or any of the disclosures.

(ii) New and amended standards not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below.

IFRS 9 - Financial Instruments

Introduction

The new standard includes a new model for classification and measurement of financial assets, a forward-looking 'expected loss' impairment model for debt instruments and a substantially reformed approach to hedge accounting (as the Bank does not conduct hedge accounting, this change will have no impact on the Bank). The standard replaces the existing guidance in IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 is effective for financial period beginning on or after 1 January 2018.

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics (whether the contractual cash flows are solely payments of principal and interest (SPPI)).

The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

The accounting for financial liabilities will largely be the same as the requirements under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

The transition to IFRS 9 will not result in a material change to the financial instruments of the Bank.

Introducing IFRS 9 will result to a change to the Bank's approach of measuring and classifying financial instruments. Specifically on impairment assessment, IFRS 9 introduces an expected credit loss (ECL) impairment model that differs significantly from the incurred loss model under IAS 39 and is expected to result in the earlier recognition of credit losses going forward.

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

Management with the help of an external consultant is in process of implementing and complying with the requirements of IFRS 9. The bank will take advantage of the exemption allowing it not to restate comparative information for the prior period with respect to classification and measurement including impairment changes.

A transition impact assessment has been carried out and it is envisaged that there will be a reduction in the shareholder equity on 1 January 2018 by Shs 698,224 representing 2.1% of total capital and as a consequence the core capital and total capital ratios will decrease from 251.1% and 26.0% to 24.6% and 25.5% respectively.

The banks' assessment shows that the impact on capital together with the anticipated increase in impairment and the costs of implementation will not affect the banks' business growth prospects as articulated in the five-year strategic plan. The increase in impairment cost is expected to be in the range of 20%-50% and the implementation cost is projected at about 2.0% of the total operating expenses.

Management and the Directors will continue to refine the impairment model to take into account more economic factors and forward looking information, bank specific credit conversion rates and improvements in data quality. These refinements should lead to a reduction in the overall impact.

A Comparison of IFRS 9 vis-à-vis IAS 39 and FIA 2004 loan loss provisions are as follows;

As at 31st December 2017	FIA 2004 (Shs 000)	IAS 39 (Audited) (Shs 000)	IFRS 9 Unaudited) (Shs 000)
Specific	2,179,660	516,181	
General	1,099,345	1,665,035	
Stage 1			2,121,360
Stage 2			366,491
Stage 3			391,589
Total	**3,279,005**	**2,181,216**	**2,879,440**

Expected credit loss impairment model

Under IFRS 9, credit loss allowances will be measured on each reporting date according to a three stage expected credit loss impairment model under which each financial asset is classified in one of the stages below:

Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults expected over the next 12 months.

Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.

Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to the full lifetime expected credit losses will be recognized. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

"

An impairment allowance will be estimated for corporate loans at an individual loan level utilising sophisticated models depending on the relative size, quality and complexity of the portfolios.

The recognition and measurement of impairment is intended to be more forward looking than under IAS 39. The estimation of an ECL is required to be unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate will also consider the time value of money.

The measurement of an ECL will primarily be determined by an assessment of the financial asset's probability of default (PD), loss given default (LGD) and exposure at default (EAD) where the cash shortfalls are discounted to the reporting date. For a financial asset in Stage 1 the Bank will utilise a 12-month PD whereas a financial asset within Stage 2 will utilise a lifetime PD in order to estimate an impairment allowance. For credit impaired financial assets within Stage 3 the Bank will continue to leverage existing processes.

An impairment allowance will be estimated for corporate loans at an individual loan level utilising sophisticated models depending on the relative size, quality and complexity of the portfolios.

Management, with the help of an external consultant has performed an impact assessment of the transition impact to the new standard and concluded that the impact would be a reduction in Shareholders' Equity ranging between 2% and 5% on 1 January 2018. A significant portion of this is driven by the adoption of the Expected Credit Loss model while other minor changes are due to classification and measurement changes. We have not performed detailed testing of these models but will continue to engage with management to ensure the impact is accounted for accurately forthwith.

Hedge accounting

The new hedge accounting requirements aim to simplify hedge accounting, align accounting with the Bank's risk management strategy and permit hedge accounting to be applied to a greater variety of hedging instruments and risks. However, due to the fact that the IASB is still addressing the accounting of macro hedging activities through a separate project, IFRS 9 includes an accounting policy choice to continue accounting for hedge accounting under IAS 39 until the macro hedging project is finalised. The Bank does not carry out Hedge accounting.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018.

Management has assessed the impact of IFRS 15 and concluded that it will not have a material impact on the financial statements on 1 January 2018.

IFRS 16, 'Leases' replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time. Management is still assessing the impact of this standard on the Company's financial statements

Amendments to IFRS 2 – Share-based payments clarify the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. The standard is effective for accounting periods beginning on or after 1 January 2018.

IFRIC 22 - Foreign currency transactions and advance consideration addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice. This is effective for accounting periods beginning on or after 1 January 2018.

IFRIC 23 - Uncertainty over income tax treatments provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. This is effective for accounting periods beginning on or after 1 January 2019.

(b) Foreign currency translation

(i) **Functional and presentation currency**
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Uganda Shillings ("Shs") which is the Bank's functional currency.

(ii) **Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

(c) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' respectively in the Statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

(d) Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

(e) Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and advances; held-to-maturity financial assets and available-for-sale financial assets.
Management determines the classification of its financial assets at initial recognition. Currently the bank does not have financial assets at fair value through profit or loss.

(i) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading. Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces or eliminates a measurement inconsistency; or
- they form part of a group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

(ii) Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those classified as held for trading and those that the Bank on initial recognition designates as at fair value through profit and loss;
- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) Held-to maturity financial assets
Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Bank to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

(iv) Available-for-sale financial assets
Available-for-sale assets are non-derivatives that are either designated in this category or not classified in any other categories.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Statement of comprehensive income in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the Statement of comprehensive income as ''gains and losses from investment securities''.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

(f) Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting.
Changes in the fair value of derivatives are recognised immediately in the Statement of comprehensive income.

(g) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to customers or placements with other banks, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(h) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(i) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
(iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; (e) the disappearance of an active market for that financial asset because of financial difficulties; or
(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
(vi). adverse changes in the payment status of borrowers in the portfolio; and
(vii). national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 3 months and 6 months.

(i) Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of comprehensive income. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to customers are classified in loan impairment charges whilst impairment charges relating to investment securities are classified in 'Net gains/ (losses) on investment securities'. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the Statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Statement of comprehensive income.

In addition to the measurement of the impairment losses on loans and advances in accordance with IFRS as set out above, the Bank is required by the Financial Institutions Act to estimate losses on loans and advances as follows:

1) Specific provision for the loans and advances considered non performing (impaired) based on the criteria, and classification of such loans and advances established by the Financial Institutions Act, as follows:

a) Substandard loans with arrears period from 90 to 179 days – 20%
b) Doubtful loans and advances with arrears period from 180 to 364 days – 50%; and
c) Loss with arrears period exceeding 364 days – 100% provision

2) General provision of 1% of credit facilities less provisions and suspended interest.

In the event that provisions computed in accordance with the Financial Institutions Act exceed provisions determined in accordance with IFRS, the excess is accounted for as an appropriation of retained earnings. Otherwise no further accounting entries are made.

(ii) Assets carried at fair value

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Statement of comprehensive income.

Impairment losses recognised in the Statement of comprehensive income on equity instruments are not reversed through the Statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the Statement of comprehensive income.

(j) Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to 'operating expenses' during the period in which they are incurred.

Freehold land is not depreciated while leased buildings (including leasehold improvements) are depreciated on a straight line basis over the shorter of the estimated useful life and the remaining lease term.

Depreciation on other assets is calculated on reducing balance at annual rates estimated to write off the carrying values of assets over their expected useful lives.

The applicable depreciation rates of items of property and equipment are as follows:

Leased Buildings	**Over the lease term**
Motor vehicles	**25%**
Office equipment	**20%**
Computer Hardware	**33.3%**
Fixtures and fittings	**12.5%**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The Bank assesses at each balance sheet date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in "other income" in the Statement of comprehensive income.

(k) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years).

Costs associated with maintaining computer software programmes are recognised as an expense as they are incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software prod uct so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

(l) Income tax

The income tax expense for the period comprises current and deferred income tax. Income tax is recognised in the Statement of comprehensive income except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Ugandan Income Tax Act. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled or the related deferred income tax asset is realised.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

(m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank, treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank.

(n) Employee benefits

(i) Retirement benefit obligations

The Bank operates a defined contribution retirement benefit scheme for all its permanent confirmed employees. The Bank and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a retirement benefit plan that is not a defined contribution plan and defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Bank and employees.

The Bank's contributions to the defined contribution schemes are charged to the Statement of comprehensive income in the year in which they fall due.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(o) Customer deposits

Deposits from customers are measured at amortised cost using the effective interest rate method.

(p) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Statement of comprehensive income over the period of the borrowings using the effective interest method.

(q) Share capital

Ordinary shares are classified as 'share capital' in equity and measured at the fair value of consideration receivable without subsequent re-measurement. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(r) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(s) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

(i) With the Bank as lessee
To date, all leases entered into by the Bank are operating leases. Payments made under operating leases are charged to the Statement of comprehensive income on a straight-line basis over the period of the lease.

(ii) With the Bank as lessor
Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the Statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

To date, the Bank has not leased out any assets as lessor.

(t) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(u) Grants

Grants include assistance offered by government, government agencies and similar bodies whether local, national, or international in the form of transfers of resources in return for past, of future compliance with certain conditions relating to the operation of the Bank. Grants related to assets are those whose primary condition is that the Bank should purchase long term assets.

Grants are recognised when there is reasonable assurance that the Bank will comply with the conditions attached to the grant and that the grant will be received.

Grants awarded towards the purchase of assets are netted off against the total purchase price in arriving at the carrying value of the asset. The grant is then recognised as income through profit or loss over the life of the asset by way of a reduction in the depreciation charge of the asset.

3. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Deferred income tax asset/liability
The Bank recognizes deferred tax assets / liabilities every when there exists qualifying deductible/taxable temporary differences respectively. Recognition of deferred tax assets is to the extent that the entity expects to recover the carrying amount in form of economic benefits flowing to the entity in future periods while that of deferred tax liabilities is hinged on the probability that economic benefits will flow from the entity in form of tax payments still in future periods.

In 2017, the Bank recognised deferred tax liabilities of Shs 643 million in respect of temporary differences arising out of variations in the carrying amounts of depreciable assets and their tax bases. The temporary differences harmonize either at full utilization or disposal of the subject assets.

(b) Impairment losses on loans and advances
The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the Statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. As at 31 December 2017, an IAS 39 provision was computed for unidentified and identified impairment. For the entire loan portfolio, impairment loss was measured on the basis of the present value of estimated future cash flows discounted at the original effective interest rate. Future expected cash flows were determined based on the value of the collateral held for which the bank's interest was registered.

For all loans not identified as individually impaired and for those identified as being impaired but classified as insignificant an impairment provision was computed using the existing bank historical loss experience to arrive at the credit loss ratio. Credit loss ratios were computed per product line to reflect variations in product characteristics and this was on the basis of bank data over a period of 4 years.

(c) Fair value of financial instruments
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(d) Held-to-maturity financial assets
The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such assets to maturity. If the Bank fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The assets would therefore be measured at fair value not amortised cost.

4. Financial risk management

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business, and the financial risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

Risk management is carried out by the Treasury department under policies approved by the Board of Directors. Through its treasury department, the Bank identifies, evaluates and hedges financial risks in close cooperation with other operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, and use of derivative and non-derivative financial instruments.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised in the credit risk management team with in the Risk department. The Credit risk management team reports regularly to the Board of Directors.

(i) Credit risk measurement Loans and advances (including commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.
The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

Probability of default

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. They are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into four rating classes.

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, customers are segmented into five rating classes as shown below:

Bank's rating	Description of the grade
1	Standard and current
2	Watch
3	Substandard
4	Doubtful
5	Loss

(ii) Risk limit control and mitigation policies
The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved regularly by the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over communal and/or business assets such as premises, inventory and accounts receivable' and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(iii) Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets:		
	2017 Shs 000	2016 Shs 000
Placements with other banks (Note 14)	**9,726,755**	12,983,430
Loans and advances to customers (Note 17)	**110,419,750**	108,229,450
Government securities (Note 15)	**16,043,949**	7,455,065
Other assets (Note 16)	**6,778,164**	5,328,112
	142,968,618	133,996,057
Credit risk exposures relating to off-balance sheet items:		
Guarantee and performance bonds	**938,715**	375,763
Commitments to lend	**812,368**	892,690
Total exposure	**144,719,701**	135,264,510

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2017, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 76.3% of the total maximum exposure is derived from loans and advances to customers and 17.81% represents investments in debt securities.

All loans and advances to customers other than to salaried individuals, are secured by collateral in the form of charges over land and buildings and/or plant and machinery and other assets, corporate and personal guarantees or assignment of contract proceeds.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- the Bank exercises stringent controls over the granting of new loans;
- 90% of the loans and advances portfolio are neither past due nor impaired; and
- 9% of the loans and advances portfolio is past due but not impaired.

(iv) Loans and advances

	2017 Shs 000	2016 Shs 000
Neither past due nor impaired	**100,723,916**	96,615,098
Past due but not impaired	**9,870,398**	9,203,970
Impaired	**2,006,652**	2,410,382
Gross	**112,600,966**	108,229,450
Less: allowance for impairment (Note 17)	**(2,181,216)**	(2,038,491)
Net amount	**110,419,750**	106,190,959

90% of the loans and advances portfolio are neither past due nor impaired 9% of the loans and advances portfolio is past due but not impaired

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank:

	2017 Shs 000	2016 Shs 000
Standard	**100,723,916**	96,615,098

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Loans and advances greater than 90 days are not considered impaired if there is sufficient collateral to cover the facility. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2017 Shs 000	2016 Shs 000
Past due up to 30 days	**3,528,003**	5,285,449
Past due 31 – 60 days	**2,176,236**	920,883
Past due 61 – 90 days	**824,667**	376,977
Past due over 90 days	**3,341,492**	2,620,661
Total	**9,870,398**	9,203,970

Individually impaired:

Of the total gross amount of impaired loans and advances, the following amounts have been individually and collectively assessed:

	2017 Shs 000	2016 Shs 000
Individually assessed impaired loans		
- Corporate	-	-
- SME	**2,006,652**	2,410,382
- Consumer	-	-
	2,006,652	2,410,382
Fair value of collateral held	1,404,855	1,672,036

Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans – in particular, customer finance loans.

Repossessed collateral

During 2017, the Bank did not re-possess any collateral held as security. The Bank's policy is to dispose of repossessed properties as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property not sold by year end is classified in the balance sheet within "other assets".

(b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank of Uganda requires that the Bank maintains a minimum cash reserve ratio. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis. Sources of liquidity are regularly reviewed by a separate team in the Treasury department to maintain a wide diversification by provider, product and term.

In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis.

The table below presents the undiscounted cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date and from financial assets by expected maturity dates.

At 31 December 2016	Up to 1 month Shs 000	1-3 months Shs 000	3-12 months Shs 000	1-5 years Shs 000	Over 5 years Shs 000	Total Shs 000
Liabilities and Equity						
Customer deposits	6,177,390	7,816,437	32,470,948	56,491,728	-	**102,956,503**
Deposits and balances due to banking institutions	90,159	65,411	497,794	3,711,736	-	**4,365,100**
Borrowed funds	214,442	1,043,152	1,697,672	20,360,821	-	**23,316,087**
Finance leases	619	3,011	4,901	58,780	-	**67,311**
Deferred tax Liability	643,275	-	-	-	-	**643,275**
Other liabilities	9,714,617	-	-	-	-	**9,714,617**
Equity	-	-	-	-	37,719,434	**37,719,434**
Total liabilities	**16,840,502**	**8,928,011**	**34,671,315**	**80,623,065**	**37,719,434**	**178,782,327**
Assets						
Cash and balances with Bank of Uganda	22,283,658	987,488	2,567,468	-	-	**22,283,658**
Placements & Deposits with other banks	6,171,799	1,628,827	4,234,952	-	-	**9,726,755**
Government securities	10,180,170	7,336,738	34,783,976	59,749,695	-	**16,043,949**
Loans and advances to customers	8,549,341	-		-	-	**110,419,750**
Other assets	6,778,164	-	-	-	-	**6,778,164**
Current income tax recoverable	121,114	-	-	-	-	**121,114**
Property and equipment	-	-	-	9,144,514	-	**9,144,514**
Operating lease prepayments	1,155,119	-	-	-	-	**1,155,119**
Intangible assets	-	-	-	3,109,304	-	**3,109,304**
	-	-			-	
Total assets	**55,239,365**	**9,953,053**	**41,586,396**	**72,003,513**	-	**178,782,327**
Off Balance Sheet Items						
Guarantee and performance bonds	(938,715)	-	-	-	-	**(938,715)**
Commitments to lend	(812,368)	-	-	-	-	**(812,368)**
Net liquidity gap						
As at 31 December 2017	**36,647,780**	**1,025,042**	**6,915,081**	**(8,619,552)**	(37,719,434)	
At 31 December 2016	**23,186,389**	**2,603,867**	**20,605,288**	**(9,772,360)**	**(35,354,475)**	

(c) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates, foreign currencies and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by the ALCO) and for the day to day implementation of those policies.

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2017 and 2016. During the reporting period, the Bank only traded in USD and the financial instruments held as at 31 December 2017 and 2016 are included in the table below.

At 31 December 2017	USD Shs 000	Total Shs 000
Assets		
Cash and balances with Central Bank	759,536	759,536
Deposits and balances due from other banking institutions	501,582	501,582
Loans and advances	-	-
Other financial assets	-	-
Total assets	**1,261,118**	**1,261,118**
Liabilities		
Customer deposits	**232,468**	**232,468**
Deposits and balances due to banking institutions	-	-
Other financial liabilities	-	-
Total liabilities	**232,468**	**232,468**
Net on-balance sheet position	**1,028,650**	**1,028,650**
Net off-balance sheet position	-	-
Overall open position	**1,028,650**	**1,028,650**
At 31 December 2017	854,427	854,427

At 31 December 2017, if the functional currency had strengthened/weakened by 10% against the foreign currencies with all other variables held constant, the pre-tax profit for the year would have been Shs 102.9 million (2016: Shs 85.4 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial assets and liabilities.

> The pre-tax profit/ loss for the year would have been **Shs 267.7 million (2016: Shs 239.8 million)** higher/lower.

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly. The Bank is managing interest rate risk by gap analysis.

Gap Analysis

Under this, interest sensitive assets and liabilities are classified into various time bands according to their maturity in the case of fixed interest rates, and residual maturity towards next pricing date in the case of floating exchange rates. The size of the gap in a given time band is analysed to study the interest rate exposure and the possible effects on the Bank's earnings.

In order to evaluate the earnings exposure, interest Rate Sensitive Assets (RSA) in each time band are netted off against the interest Rate Sensitive Liabilities (RSL) to produce a repricing gap for that time band. A positive gap indicates that the Bank has more RSA and RSL. A positive of asset sensitive gap means that an increase in market interest rates could cause an increase in the net interest margin and vice versa. Conversely, a negative or liability sensitive gap implies that the Bank's net interest margin could decline as a result of increase in market rates and vice versa.

At 31 December 2017, if the interest rates on interest bearing assets and liabilities had been 100 basis points higher/lower with all other variables held constant, the pre-tax loss for the year would have been Shs 267.7 million (2016: Shs 239.8 million) higher/lower.

The table below summarises the Bank's exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

At 31 December 2017	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Bank of Uganda	-	-	-	-	22,283,658	**22,283,658**
Placements & Deposits with other banks	3,575,205			-	6,151,550	**9,726,755**
Government securities	11,050,226	4,993,723		-	-	**16,043,949**
Loans and advances to customers	8,549,341	7,336,738	34,783,976	59,749,695	-	**110,419,750**
Other assets	-	-	-	-	6,778,164	**6,778,164**
Current income tax recoverable	-	-	-	-	201,533	**201,533**
Property and equipment	-	-	-	-	9,144,514	**9,144,514**
Operating lease prepayments	-	-	-	-	1,155,119	**1,155,119**
Intangible assets	-	-	-	-	3,109,304	**3,109,304**
	-	-	-	-		
Total assets	**23,174,772**	**12,330,461**	**34,783,976**	**59,749,695**	**48,823,842**	**178,862,746**
Liabilities						
Customer deposits	5,248,760	6,641,413	27,589,677	47,999,476	15,477,177	**102,956,503**
Deposits and balances due to other banking institutions	601,061	436,077	3,318,627	9,335	-	**4,365,100**
Borrowings	214,442	1,043,152	1,697,672	20,360,821	-	**23,316,087**
Finance Leases	619	3,011	4,901	58,780	-	**67,311**
Deferred tax Liability	-	-	-	-	643,275	**643,275**
Other Liabilities	-	-	-	-	9,714,617	**9,714,617**
Equity	-	-	-		37,719,434	**37,719,434**
Total Equity and Liabilities	**6,064,882**	**8,123,653**	**32,610,877**	**68,428,412**	**63,554,503**	**178,782,327**
Interest re-pricing gap As at 31 December 2017	**17,109,890**	**4,206,808**	**2,173,099**	**(8,678,717)**		
At 31 December 2016	**2,632,744**	**2,277,217**	**19,289,545**	**(50,700,570)**		

> The Bank considers relevant and observable **market prices** in its valuations where possible.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

(d) Fair values of financial assets and liabilities

The fair value of held-to-maturity investment securities and other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the Bank at the balance sheet date.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. The Bank considers relevant and observable market prices in its valuations where possible.

(e) Financial instruments by category

31 December 2017	Loans and Receivables Shs 000	Available-for-sale Shs 000	Total Shs 000
Assets as per balance sheet			
Cash and Balances with Bank of Uganda	22,283,658	-	22,283,658
Balances & Placements with other banks	9,726,755	-	9,726,755
Loans and advances to customers	110,419,750	-	110,419,750
Investment securities:			
– Held to Maturity	-	10,552,011	10,552,011
– Available for Sale	-	5,491,938	5,491,938
Total	**142,430,163**	**16,043,949**	**158,474,112**

31 December 2016	Loans and receivables Ushs 000	Available-for-sale Ushs 000	Total Shs 000
Assets as per balance sheet			
Cash and balances with Central Bank	18,516,850	-	18,516,850
Balances & Placements with other banks	12,983,430	-	12,983,430
Loans and advances to customers	106,190,959	-	106,190,959
Investment securities:			
– Held to Maturity		1,605,843	1,605,843
– Available for Sale		5,849,222	5,849,222
Total	**137,691,239**	**7,455,065**	**145,146,304**

	2017 Shs 000	2016 Shs 000
Liabilities as per balance sheet – at amortised cost		
Customer deposits	**102,956,503**	95,001,566
Deposits from other banks	**4,365,100**	8,245,199
Other liabilities	**9,714,873**	7,740,825
Borrowings	**23,316,087**	19,845,915
Finance Leases	**67,311**	110,283
Total	**140,419,874**	**130,943,788**

(f) Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheet, are:

- To comply with the capital requirements set by the Central Bank;
- To safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank for supervisory purposes. The required information is filed with the Central Bank on a quarterly basis.

Under the Financial Institutions Act, 2004, each Bank is required to: (a) hold the minimum level of regulatory capital of Shs 25 billion; (b) maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets at or above the required minimum of 8%; and (c) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's total capital is divided into two tiers:

• Tier 1 capital (core capital) which upon applying the provisions of the Financial Institutions (Capital Adequacy Requirement) Regulation 2005, comprise Permanent Shareholders' Equity (issued and fully paid-up common shares and irredeemable, non-cumulative preference shares), share premium, prior years' retained profits, Net after-tax profits current year-to-date (50% only) and general reserves (permanent, unencumbered and able to absorb losses) less deductions of goodwill and other intangible assets, current year's losses, investments in unconsolidated financial subsidiaries, deficiencies in provisions for losses, prohibited loans to insiders and other deductions determined by Central Bank.

• Tier 2 capital (supplementary capital) which upon applying the provisions of the Financial Institutions (Capital Adequacy Requirement) Regulation 2005, comprise revaluation reserves on fixed assets, unencumbered general provisions for losses, subordinated debt and Hybrid capital instruments.

The Bank monitors the adequacy of its capital using the above ratios of core capital and total capital as set out in the Financial Institutions Act. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets and off-balance-sheet commitments at a weighted amount to reflect their relative risk.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, and 100%) are applied; for example cash and balances with Bank of Uganda and Government of Uganda instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Balances with other Banks have a 20% or 50% or 100% risk weighting balance because they carry some risk, while, property and equipment carries a 100% risk weighting, meaning that it must be supported by total capital equal to 12% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance-sheet credit related commitments and forwards are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December 2017 determined in accordance with the Financial Institutions Act:

	2017 Shs 000	2016 Shs 000
Core capital (Tier 1)		
Shareholder's equity	27,785,402	27,785,402
Retained earnings	8,124,360	6,328,138
Intangible assets	(3,109,304)	(3,795,606)
Deferred income tax asset	-	(173,988)
Unrealized foreign exchange gains	(3,062)	
Total core capital	32,798,241	30,143,946
Supplementary capital (Tier 2)		
General provisions (FIA)	1,099,345	1,056,743
Tier 2 capital	1,099,345	1,056,743
Total capital (Tier 1 and Tier 2)	33,897,586	31,200,689

The risk weighted assets are measured by means of a hierarchy of four risk categories classified according to the nature of the asset and reflecting an estimate of the credit risk associated with each asset and counterparty, taking into account any eligible collateral or guarantees.

A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of the risk weighted assets of the Bank at 31 December 2017:

	Balance sheet amount		Risk weight %	Risk weighted amount	
	2017 Shs '000	2016 Shs '000		2017 Shs '000	2016 Shs '000
Balance sheet assets (net of provisions)					
Cash at Hand	15,680,383	12,496,505	0%	-	-
Balances with Bank of Uganda	6,603,275	6,020,345	0%	-	-
Balances with other Financial institutions in Uganda	6,151,550	5,853,368	20%	1,230,310	1,170,674
Placement with DTB	-	1,098,413	20%	-	219,682
Placement with Pride Micro Finance	3,575,205	6,031,649	20%	715,041	1,206,330
Government securities	16,043,949	7,455,065	0%	-	-
Loans and advances to customers	109,934,491	105,674,283	100%	109,934,491	105,674,283
Other assets	6,778,164	6,298,827	100%	6,778,164	6,298,827
Current income tax recoverable	121,115	253,999	100%	121,115	253,999
Property and equipment	9,144,514	9,364,489	100%	9,144,514	9,364,489
Operating lease prepayments	1,155,119	1,178,449	100%	1,155,119	1,178,449
Intangible	3,109,304	3,795,606	0%	-	-
Deferred income tax asset	-	173,988	0%	-	-
On balance sheet assets	**178,297,069**	**165,694,986**		**129,078,754**	**125,366,733**
Off-balance sheet positions					
Guarantees	938,715	375,763	100%	938,715	375,763
Commitments to lend	812,368	892,690	50%	406,184	446,345
Off balance sheet items	**1,751,083**	**1,268,453**		**1,344,899**	**822,108**
Total risk-weighted assets	**180,048,152**	**166,963,439**		**130,423,653**	**126,188,841**

Loans and advances to customers	2017 Shs '000	2016 Shs '000
Gross loans and overdraft (Note 17(a))	112,600,967	108,229,450
Staff loans fair valuation adjustment	190,997	408,653
Less specific provisions (FIA)	(2,179,660)	(2,210,700)
Less interest in suspense	(677,813)	(753,120)
Net Loans and advances	**109,934,491**	**105,674,283**

Capital ratios per Financial Institutions Act (FIA)

Core capital	**32,797,396**	**30,143,946**
Total capital	**33,896,741**	**31,200,689**
FIA minimum ratio capital requirement		
Core capital (8%)	**25.1%**	23.9%
Total capital (12%)	**26.0%**	24.7%

5 Interest income

	2017 Shs 000	2016 Shs 000
Loans and advances	33,287,903	31,064,446
Government securities	1,288,633	609,415
Short term placements	817,977	1,455,090
	35,394,513	**33,128,951**

6 Interest expense

	2017 Shs 000	2016 Shs 000
Customer deposits	5,564,619	5,748,519
Borrowed funds	3,062,321	3,404,716
	8,626,940	**9,153,235**

7 Fee and commission income

	2017 Shs 000	2016 Shs 000
Transactional fees and commission income	5,570,626	4,609,011
Credit related fees and commission income	12,360,799	12,329,853
	17,931,425	**16,938,864**

8 Foreign exchange income

	2017 Shs 000	2016 Shs 000
Realized foreign exchange gains	122,058	143,427
Unrealized foreign exchange gains	3,062	-
	125,120	**143,427**

9 Other income

	2017 Shs 000	2016 Shs 000
Recovery of written off loans	978,965	619,357
Grant income	260,180	319,974
Other income	624,232	429,323
	1,863,377	**1,368,654**

10 Operating expenses

	2017 Shs 000	2016 Shs 000
Depreciation of property and equipment (Note 18)	2,307,635	2,554,618
Amortization of intangible assets (Note 20)	776,554	668,351
Employee benefits expense (Note 11)	20,801,591	20,696,179
Auditor’s remuneration	388,208	197,393
Legal fees	293,067	249,733
Other professional fees	201,865	274,833
Rent and rates	2,615,572	2,409,157
Advertising and promotion	1,222,553	1,262,710
Communication and technology	2,656,603	2,083,164
Administration costs	7,240,075	7,486,416
Other	592,447	361,438
	39,096,170	**38,243,992**

11 Employee benefits expense

	2017 Shs 000	2016 Shs 000
Salaries and wages	16,786,785	16,480,248
NSSF contributions	1,733,380	1,700,796
Defined contribution scheme contributions	534,830	535,690
Other staff costs	1,746,597	1,979,445
	20,801,591	**20,696,179**

12 Income tax expense

	2017 Shs 000	2016 Shs 000
Current income tax charge	490,547	121,884
Deferred income tax Charge-Current Year (Note 25)	817,263	264,115
	1,307,810	385,999
Profit before income tax	**3,682,279**	**1,412,888**
Tax calculated at the statutory income tax rate of 30% (2016: 30%)	**1,104,684**	**423,866**
Tax effect of:		
- Tax effect of non-deductible items	**25,094**	20,423
- 30% standard tax rate applied on income taxed at 20%	**(124,899)**	(69,941)
- Prior year deferred income tax under provision	**302,931**	11,651
Income tax Charge	**1,307,810**	385,999
Current income tax recoverable was as follows:		
At start of year	**253,998**	238,543
Adjustments for prior period items	-	-
Current income tax charge	**(490,546)**	(86,601)
Income tax paid	**357,662**	102,057
At end of year	**121,114**	253,998

13 Cash and balances with Bank of Uganda

	2017 Shs 000	2016 Shs 000
Cash on hand	**15,680,383**	12,496,505
Balances with Bank of Uganda	**6,603,275**	6,020,345
	22,283,658	18,516,850

14 Placements and deposits with other banks

	2017 Shs 000	2016 Shs 000
Balances with Banks in Uganda	**6,151,550**	5,853,368
Placements with other banking institutions - inside Uganda	**3,575,205**	7,130,062
	9,726,755	12,983,430

The weighted average effective interest rate on deposits and balances with other banking institutions was 9.9% (2016: 14.9%)

15 Government securities

	2017 Shs 000	2016 Shs 000
Held to maturity-Maturing within 90 days	**14,449,638**	960,857
Held to maturity-Maturing later than 90 days	-	644,986
Available for sale	**2,291,938**	6,068,916
	16,741,576	7,674,759
Available for sale	**(697,627)**	**(219,694)**
	16,043,949	**7,455,065**

The weighted average effective interest rate on government securities was 9.9% (2016: 14.9%)

16 Other assets

	2017 Shs 000	2016 Shs 000
Accounts receivable and prepayments	**4,223,336**	4,410,767
Other receivables	**1,980,625**	1,537,005
Consumables	**574,203**	351,055
	6,778,164	6,298,827

17 Loans and advances to customers

a) Analysis of loan advances to customers by category:

	2017 Shs 000	2016 Shs 000
Term loans	**111,674,335**	106,230,106
Overdrafts	**926,632**	1,999,344
Total Gross Loans	**112,600,967**	108,229,450
Less: Provision for impairment of loans and advances		
- Individually assessed	**(516,182)**	(1,046,120)
- Collectively assessed	**(1,665,035)**	(992,371)
	110,419,750	106,190,959

The weighted average effective interest rate on loans and advances to customers was 25.3% (2016: 25.5%).

Movements in provisions for impairment of loans and advances are as follows:

	Individually assessed Shs 000	Collectively assessed Shs 000	Total Shs 000
Year ended 31 December 2016			
At 1 January	**349,811**	**1,133,122**	**1,482,933**
Provision for loan impairment	1,186,305	1,583,476	2,769,781
Loans written off during the year as uncollectible	(489,996)	(1,724,227)	(2,214,223)
At 31 December	**1,046,120**	**992,371**	**2,038,491**
Year ended 31 December 2017			
At 1 January	1,046,120	992,371	2,038,491
Provision for loan impairment	1,595,665	2,313,382	3,909,047
Loans written off during the year as uncollectible	(2,125,603)	(1,640,718)	(3,766,321)
At 31 December	**516,182**	**1,665,035**	**2,181,217**

(b) Impairment losses charged to profit or loss

	2017 Shs 000	2016 Shs 000
Provision for loan impairment (note 17 (a))	**3,909,047**	2,769,781
Amounts recovered during the year (note 17 (a))	**-**	-
	3,909,047	2,769,781

(c) Regulatory reserve

Analysis as required under the Financial Institutions Act (FIA)

	2017 Shs 000	2016 Shs 000
Total provision as per IFRS		
Specifice provision (Note 17(a))	**516,182**	1,046,120
General provision	**1,665,035**	992,371
	2,181,217	2,038,491
Total provisions as required underr the FIA		
Specific provisions	**2,179,660**	2,210,700
General provisions	**1,099,345**	1,056,743
	3,279,005	3,279,443
Regulatory reserve		
At 1 January	**1,228,953**	1,273,360
Transfer to retained earnings	**(131,165)**	(44,407)
At 31 December	**1,097,788**	1,228,953

18 Property and equipment

	Buildings Shs 000	Motor vehicles/ Cycles Shs 000	Computer Hardware Shs 000	Fixtures, fittings and equipment Shs 000	Work in progress Shs 000	Total Shs 000
Year Ended 31 December 2016						
Opening net book amount	155,849	920,164	2,387,178	6,287,144	772,552	10,522,887
Additions	9,499	142,350	273,303	1,337,269		1,762,421
Transfers from WIP	-	-	294,069	97,306	(728,605)	(337,230)
Depreciation charge	(2,546)	(438,395)	(885,852)	(1,227,825)	-	(2,554,618)
Disposals						
Cost	-	(52,930)	(2,995)	(81,539)	-	(137,464)
Depreciation	-	39,750	2,729	66,014	-	108,493
Closing net book amount	**162,802**	**610,939**	**2,068,432**	**6,478,369**	**43,947**	**9,364,489**
Cost	197,739	2,078,273	5,262,243	13,618,919	43,947	21,201,121
Accumulated depreciation	(34,937)	(1,467,334)	(3,193,811)	(7,140,550)	-	(11,836,632)
Net book amount	**162,802**	**610,939**	**2,068,432**	**6,478,369**	**43,947**	**9,364,489**
Year Ended 31 December 2017						
Opening net book amount	**162,802**	**610,939**	**2,068,432**	**6,478,369**	**43,947**	**9,364,489**
Additions		602,889	398,358	924,762	281,278	2,207,287
Transfers from WIP	-	-	-	5,250	(43,947)	(38,697)
Depreciation charge	(2,665)	(252,873)	(744,653)	(1,307,443)	-	(2,307,635)
Disposals						
Cost	-	(158,726)	(35,752)	(177,944)	-	(372,421)
Depreciation	-	142,064	31,270	118,157	-	291,491
Closing net book amount	**160,137**	**944,293**	**1,717,655**	**6,041,162**	**281,278**	**9,144,514**
Cost	197,739	2,522,436	5,624,849	14,370,987	281,278	22,997,290
Accumulated depreciation	(37,602)	(1,578,143)	(3,907,194)	(8,329,836)	-	(13,852,776)
Net book amount	**160,137**	**944,293**	**1,717,655**	**6,041,151**	**281,278**	**9,144,514**

19 Operating lease prepayments

	2017 Shs 000	2016 Shs 000
Cost		
At 1 January	**9,586,849**	6,892,975
Additions	**2,592,243**	2,693,874
At 31 December	**12,179,092**	9,586,849
Amortization		
At 1 January	**8,408,401**	5,999,243
Charge for the year	**2,615,572**	2,409,157
At 31 December	**11,023,973**	8,408,400
Net book value		
At 31 December	**1,155,119**	1,178,449

20 Intangible assets

	2017 Shs 000	2016 Shs 000
Net book amount at 1 January	**3,795,606**	2,576,877
Additions: Computer Software	**51,555**	1,549,850
Transfer from property and equipment	**38,697**	337,230
Amortization	**(776,554)**	(668,351)
Net book amount at 31 December	**3,109,304**	3,795,606
Cost	**7,465,949**	7,375,696
Accumulated depreciation	**(4,356,645)**	(3,580,090)
Net book amount	**3,109,304**	3,795,606

The intangible assets relate to computer software acquired to support the Bank's operations.

21 Customer deposits

	2017 Shs 000	2016 Shs 000
Current and demand deposits	**15,477,177**	11,280,543
Savings accounts	**68,606,046**	54,873,233
Fixed deposit accounts	**18,873,280**	28,847,790
	102,956,503	95,001,566

The weighted average effective interest rate on customer deposits was 2% (2016: 2.0%).

22 Deposits and balances due to other banking Institutions

	2017 Shs 000	2016 Shs 000
Term deposits	**4,365,100**	8,245,199
	4,365,100	8,245,199

The deposits with other banking institutions are interest bearing. The weighted average effective interest rate on deposits and balances due to other banking institutions was 15.4%.

23 Borrowings

	2016 Shs 000	2015 Shs 000
Uganda Development Bank	**5,787,607**	
aBi Finance	**4,739,342**	3,979,506
Stromme Microfinance East Africa Limited	**925,489**	1,689,577
Uganda Energy Credit Capitalisation Company	**1,147,570**	1,441,408
The Micro Finance Support Centre Limited	**3,045,734**	536,578
East Africa Development Bank	**5,070,345**	5,915,402
Oikocredit	**2,600,000**	6,283,444
	23,316,087	**19,845,915**

The terms and conditions relating to the borrowings are set out below:

The Uganda Development Bank facility was a loan of Ugx 6.0bn sourced for on-lending to Agri-business. It is repayable on a quarterly within a tenor of 5 years at a fixed interest rate of 12% pa. Its secured by a lien over 100% of the Bank's performing loan portfolio and a cross guarantee by Uganda Women's Trust.

The ABI loan was secured in 2 tranches of Ugx 5.0bn and Ugx 2.2bn for periods of 5 years. The tranche of Ugx 5.0bn was secured at rate of 13.5% while that of Ugx 2.2bn was secured at 14.0% to finance agri-business. The facilities are repayable on a quarterly basis and are secured by a debenture on the Bank's performing loan portfolio encumbered up to 120% of the facility.

The Stromme facility was secured in the amount of Ugx 4.0bn but disbursed in 2 tranches of Ugx 2.5bn & Ugx 1.5bn at a fixed interest rate of 14.5% for a period of 4 years. It's repayable in equal instalments and it was extended for the purpose of on-lending the enterprising poor Ugandans especially women entrepreneurs.

The loan from East African Development Bank was in the amount of Ugx 5.5875bn taken out for a period of 8 years at a rate of 15% for purposes of on-lending to rural based agricultural and agri-business enterprises in Uganda. It is secured by a floating charge of 120% on the Bank's loan portfolio.

The loan from Micro Finance Support Centre Limited in the amount of Ugx 3.0bn was obtained for a period of 12 months at a fixed rate of 11%. It was extended for purposes of on-lending to teachers through the Teacher's SACCO and it's secured by a fixed debenture charge over the Bank's loan portfolio to the extent of the amount advanced.

The Uganda Energy Credit Capitalisation Company facility (UECCC) was in the amount of Ugx 1.4bn secured for a period of 10 years at a rate of 8.5% for purposes of Solar refinancing. It is repayable on a half yearly and it's secured by a demand promissory note in favour of UECCC.

The OIKO credit instrument was a loan facility of Ugx 6.0bn advanced for a period of 6 years at a variable interest rate of T-bill rate 182 days plus 1.905% but with a floor of 12%. It is repayable on a quarterly basis and it is backed by a pledge on the Bank's grade A loan portfolio and promissory notes covering 100% of the loan value.

24 Other liabilities

	2017 Shs 000	2016 Shs 000
Accounts payable	**3,797,451**	1,543,157
Accruals and provisions	**93,350**	693,828
Other taxes payable	**714,533**	576,324
Gratuity & pensions	**415,931**	363,995
Deferred income	**1,714,153**	1,294,971
Designated funds	**471,385**	401,042
Capital grants	**1,023,528**	1,222,951
Others	**1,484,286**	1,557,956
	9,714,617	7,654,224

Designated funds relate to grant monies advanced to the Bank to support implementation of defined projects. These funds are accounted for as ordinary liabilities until they are applied to the relevant revenue or capital expenditure projects at which point they are reclassified into either revenue grants that are offset from the total expenditure or capital grants that are still deferred under liabilities and released as the Bank enjoys the services of the funded assets.

25 Deferred income tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable tax rate of 30%. The net deferred tax asset comprises:

Year ended 31 December 2017	1 January 2017 Shs 000	Charged (credited) to P/L Shs 000	31 December 2017 Shs 000
Deferred income tax liabilities			
Accelerated tax depreciation	**(1,694,346)**	**91,717**	**(1,602,629)**
Deferred income tax assets			
Tax losses carried forward	886,390	(886,390)	
Capital grants	366,886	(59,827)	307,059
Provisions for loan impairment	297,711	(201,799)	499,510
Other provisions	317,347	(164,562)	152,785
	1,868,334	(908,980)	959,354
Net deferred income tax asset	**173,988**	**(817,263)**	**(643,275)**

Year ended 31 December 2016	1 January 2016 Shs 000	Charged (credited) to P/L Shs 000	31 December 2016 Shs 000
Accelerated tax depreciation	**(1,651,566)**	**(42,780)**	**(1,694,346)**
Deferred income tax assets			
Tax losses carried forward	1,289,260	(402,870)	886,390
Capital grants	283,178	83,708	366,886
Provisions for loan impairment	339,937	(42,226)	297,711
Other provisions	177,295	140,052	317,347
	2,089,670	(221,336)	1,868,334
Net deferred income tax asset	**438,104**	**(264,116)**	**173,988**

The movement on the deferred tax asset account is as follows:	2017 Shs 000	2016 Shs 000
At 1 January	**173,988**	438,104
Income statement (charge)/ (note 12)	**(817,263)**	(264,116)
At 31 December	**(643,275)**	173,988

26 Finance Lease Arrangements

The Bank enters finance leasing arrangements as a source of financing to support her operations. As at end of the year 2017, the Bank had running leases with Computer Point, one of its major suppliers for six note-counters over a period of 3 years. Annual lease rentals were agreed at Shs 54,516,000, payable semi-annually with an effective date of the lease arrangement was 13 May 2016.

	2017 Shs 000	2016 Shs 000
As a 1 January	**110,283**	252,255
New contracts	-	137,541
Payments made during the year	**(42,972)**	(279,513)
Total	**67,311**	110,283
Not later than 1 year	**67,311**	70,885
Later than 1 year but less than 5 years	-	39,398
Later than 5 years	-	-
Total	**67,311**	110,283

27 Share capital

	Number of shares issued & fully paid (thousands)	Ordinary shares Shs 000	Share premium Shs 000
Year ended 31 December 2016			
At start of year	27,785,402	27,785,402	-
Rights issue of shares	-	-	-
At year end	**27,785,402**	**27,785,402**	**-**
Year ended 31 December 2017			
At start of year	27,785,402	27,785,402	-
Bonus issue of shares	-	-	-
At end of year	**27,785,402**	**27,785,402**	**-**

The total authorised number of ordinary shares is Shs 30 million (2016: 30 million) with a par value of Shs 1,000 per share. No share issues were done during the year 2017.

28 Bank shareholding

The Bank shareholders are as follows:

Shareholder:	Country of incorporation	Holding
Uganda Women Trust	Uganda	20.1%
Oiko Credit Ecumenical Development Cooperative Society U,A	Netherlands	19.6%
Progression Eastern African Micro Finance Equity Fund	Mauritius	18.3%
RIF North 1 Investment	Mauritius	18.3%
I&P Afrique Enterpreneurs	Mauritius	14.2%
Founder Members	Uganda	9.5%
		100.00%

29 Analysis of cash and cash equivalents

	2017 Shs 000	2016 Shs 000
Cash and Balances with Banks of Uganda (note 13)	22,283,658	18,516,850
Less: cash reserve requirement	(8,720,000)	(7,930,000)
Government securities - maturing within 90 days & AFS (note 15)	16,043,949	7,674,759
Balances and Placements with other banks (note 14)	9,726,755	12,983,430
	39,334,362	**31,245,039**

Cash and cash equivalents include the cash reserve requirement held with the Bank of Uganda. Banks are required to maintain a prescribed daily average minimum cash balance with the Bank of Uganda from time to time and the amount is determined as 8% of the average outstanding customer deposits over a cash reserve cycle period of two weeks. Whilst it's available for use in the bank's activities and may fall to 50% of the margin on a given day there are sanctions for non-compliance.

For the purposes of the cash flow statement, cash and cash equivalents include cash balances, balance with the central bank and amounts due from other banks.

	2017 Shs 000	2016 Shs 000
Cash and Balances with Banks of Uganda (note 13)	22,283,658	18,516,850
Government securities - maturing within 90 days & AFS (note 15)	16,043,949	-
Balances with other banks (note 14)	6,151,550	5,853,368
	44,479,157	**24,370,218**

30 Earnings per share

	2017	2016
Profit attributable to equity holders of the Bank (Shs 000)	**2,364,703**	1,038,871
Weighted average number of ordinary shares in issue (thousands)	**27,785,402**	27,785,402
Earnings per share (expressed in Shs per share)	**85**	37

31 Related party balances

The immediate and ultimate parent of the Bank is UWT which owns 20.1% of the Bank's shares.

The details of related-party transactions and outstanding balances at year-end were as follows:

	2017 Shs 000	2016 Shs 000
Borrowings from related parties		
Loans from Oikocredit (shareholder)	2,600,000	6,283,444
Interest expense incurred	646,207	221,869
Loans and advances to directors and key management	1,507,178	1,724,813

Advances to customers include loans to directors and loans to employees as shown above.

Interest income earned on loans and advances to key management and directors is Shs 115 million (2016: Shs 188 million).

Key management compensation		
	2017 Shs 000	2016 Shs 000
Salaries and short-term employment benefits	**1,481,085**	1,432,227
Terminal benefits	**534,830**	535,690
Other staff benefits	**112,012**	112,025
	2,127,927	2,079,942
Directors' remuneration		
Directors' fees	**997,449**	1,482,694

32 Off-balance sheet financial instruments, contingent liabilities and commitments

The following are the commitments outstanding at year end	2017 Shs 000	2016 Shs 000
Acceptances and letters of credit	-	-
Guarantee and performance bonds	**938,715**	375,763
	938,715	375,763

Other commitments
Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for fixed periods. The Bank may withdraw from its contractual obligations to extend credit by giving reasonable notice to the customers. At 31 December, these included:

	2017 Shs 000	2015 Shs 000
Approved advances not utilized	**812,368**	892,690

33 Revaluation reserve - available for sale securities

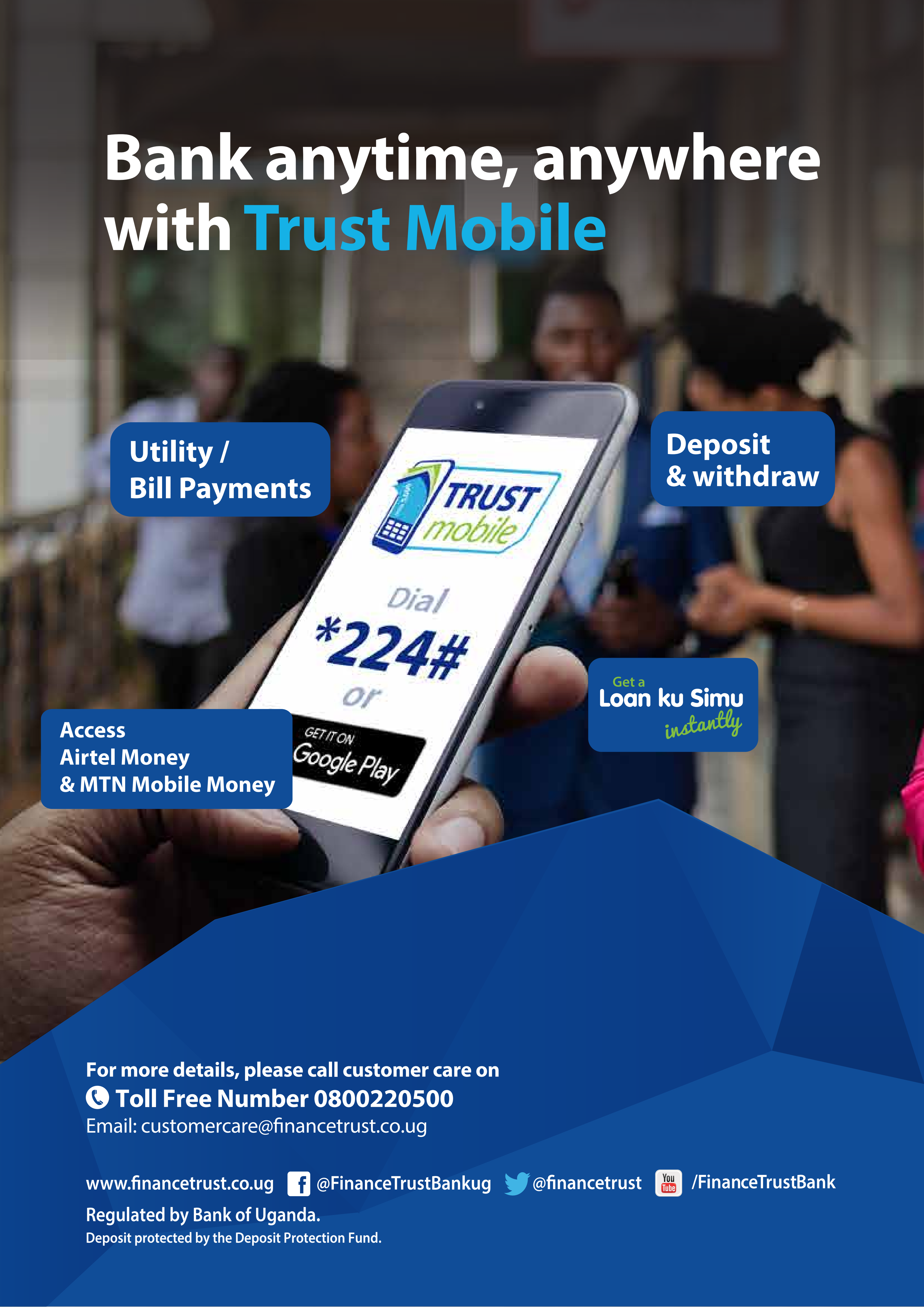
	2016 Shs 000	2015 Shs 000
As at 1 January	**11,982**	-
Net gains from changes in fair value	**(9,765)**	**11,982**
Net movement for the year	**2,217**	11,982

The above amount relates to revaluation gains on available for sale government securities.

34 Proposed dividends

No interim dividend was paid during the year (2016: Nil). The directors recommend a final dividend for the year 2017 of Shs 709m.

Notes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